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JAPAN'S MOVIE-MAKERS

Not
just
a
cinema
of
samurai

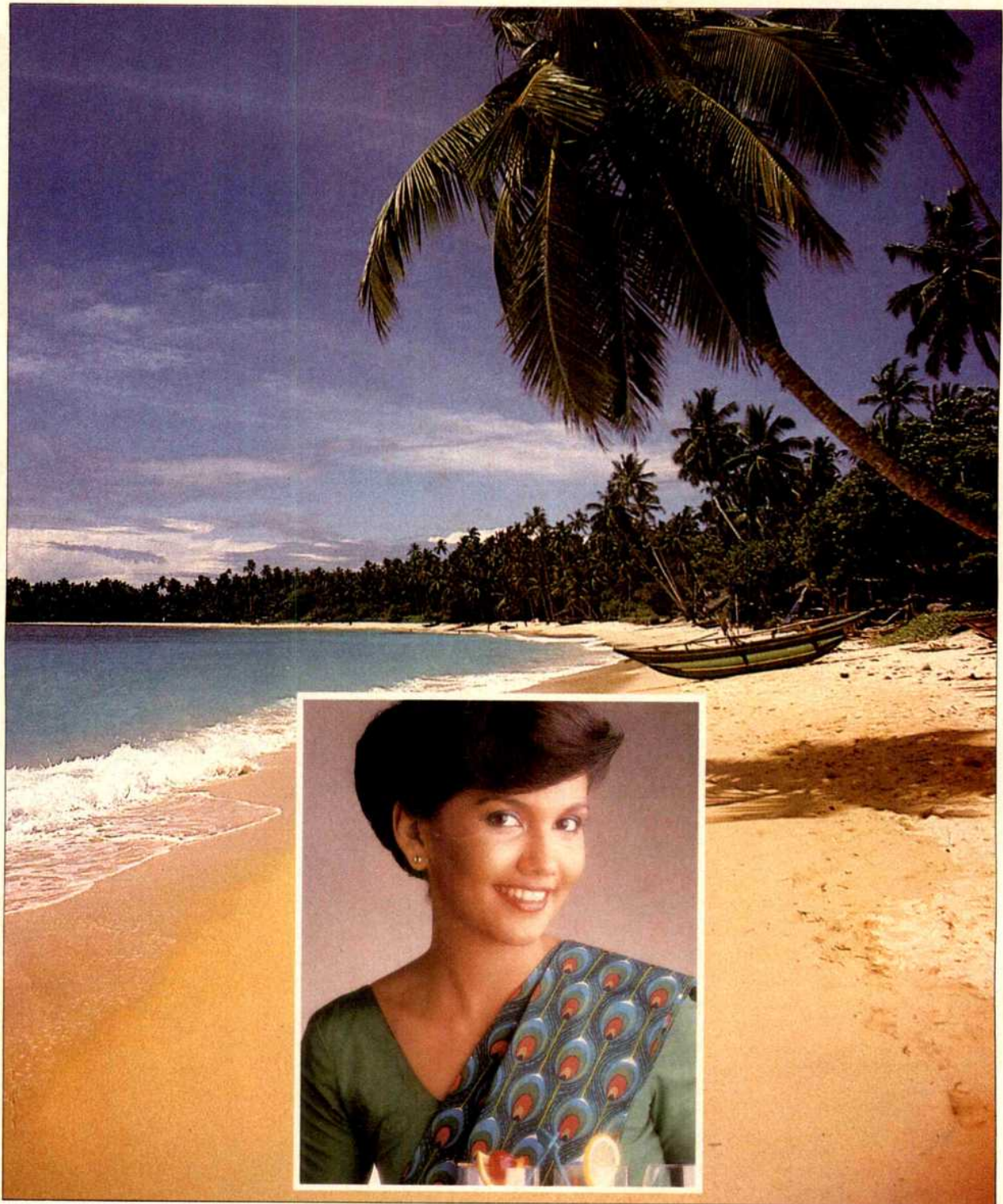
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The Economist



Loyalties

Over two thirds of Britons still believe they belong to the working class. This explains some of the support for even the least sensible strikes, page 11, like the coal stoppage that drags on, page 50.

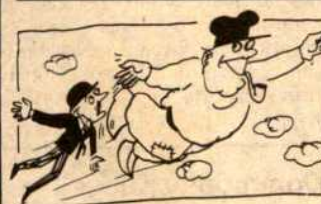


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Stop lobbying against cheap fares, page 14.

SEC turns 50

And celebrates by hounding insider traders, pages 69-71.

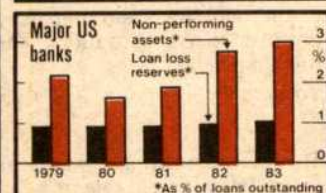


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Exocet tries again

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LETTERS

Local empires

SIR—It is a shame that your leader on "Little local empires" (June 16th), did not consider Ethiopia under that heading. If "supreme and extensive political dominion" is to be the test, then events in that country over the years have differed only in scale and style.

The 23-year-old war in Eritrea illustrates the point. Strategically situated on the Red Sea coast, Eritrea was colonised by the Italians in the 1890s, during the reign of Emperor Menelik II. British administration, following Italy's defeat in 1941, lasted until 1952, when UN resolution 390 A(v) came into force, federating Eritrea as an autonomous unit with Ethiopia. This was unilaterally revoked by Haile Selassie's invasion in 1962. Through various economic and military means, the late Emperor attempted to consolidate economic and political control around centralised, tightly organised structures in Addis Ababa. But the balance was delicate and the American-backed regime fell in the coup of 1972.

Since then the "progressive, socialist" dergue has been substituted for the emperor—but the little local empire has remained. From roots established during the oppression of the 1960s, revolutionary forces responded to the new regime and re-established

control over nearly the whole of Eritrea. It was Russian support in the late 1970s that enabled Colonel Mengistu to force the Eritrean People's Liberation Front (EPLF) into a strategic withdrawal. But the EPLF continued a guerrilla war while the dergue further alienated and cruelly suppressed other movements in Tigray, in the southern areas populated by the Oromos and other groups, as well as in Eritrea.

In its present form, the dergue continues to behave more as an empire in decline than as a "People's Democratic Republic". The actors may have changed over the years, but the years appear not to have altered the script.

Isle of Wight

SCOTT JONES

SIR—You refer to "30 truly open democracies" among "160-odd" states. In the Survey of Freedom that I have produced annually since 1973 I now count about 52 "free" states.

Accepting your short-hand definition of an open democracy as a state where "the government stands a chance of being peacefully booted out by the ballot box", it would appear that, of our 31 "most free" states, at least 27 would meet this criteria with little difficulty. Of the 23 states slightly below this level, at least 15 would meet the standard. This suggests that at least 42 fully independent states should be regarded as "truly open democracies" by *The Economist's* standard.

Your leader was commenting on the elections in the Philippines, Egypt and El Salvador, three states that are surely not yet truly open democracies. But the elections marked improvements in all three, and we share in your applause.

New York

RAYMOND D. GASTIL

Russia in hibernation

SIR—Your recent articles on the diplomatic retreat of the Soviet Union (May 19th and June 2nd) have been accurate and succinct. The winning out of a more sectarian line within the Kremlin may have had something to do with what the Russians see as the failure of their former policy in Europe and the rest of the world. It is quite true that "glowering isn't lovable", and the west has little to fear from a glowering and hedge-hoggy Russia. But I see

little reason for celebration, for if there is nothing to be feared, then there is certainly nothing to be gained.

The Russians' policy of detente had caused them to lose a measure of control in eastern Europe, while gaining influence in western Europe. Those who have feared "Finlandisation" of western Europe have often overlooked a corresponding and much more powerful westernisation of eastern Europe. Hedgehog Russia, unfortunately, will tighten the reins within its own sphere.

A Soviet Union which seemingly cares little about the rest of the world cares a great deal for the maintenance of status quo. I do not see why we should view this as such a positive thing, and therefore cannot be "glad of Mr Gromyko's rolled-up Russia". I await the return of free competition between east and west in world affairs. Communists believe that history is on their side. History has proven them wrong, time and time again. It is high time for us to realise that history is on our side, and pursue a positive course in outlook and foreign policy.

Toronto

B. K. CHIN

SIR—You annoyingly warm up (June 16th) the old tale of "Finlandisation". At the Finnish latitudes, the iron curtain is porous indeed—witness the bears and wolves wandering westward and our reindeer going east through the borderline—but this iron curtain definitely runs east and not west of Finland.

Munich

ARJA KOSKIVAARA-
RAUTSOLA

Sikhs

SIR—Your report on the Sikhs, "Not according to the Book" (June 16th), should have been entitled "According to the Book". Sikhs do not worship the Granth Sahib; it is its contents that we revere. There is a tremendous difference between reverence and deification.

You say that Sikhs, despite the teachings of the Granth Sahib, are a practical people, not mystics—the Yorkshireman of the subcontinent. True, the characteristic features of both Yorkshireman and Sikh are honesty, an aversion to humbug and a practical approach to life. The life of a mystic, totally devoted to abstract self-realisation, is criticised by our gurus as a selfish abandonment of our social obligations. A Sikh is expected to be both a

mystic in his pursuit of godly ideals and a practical social being at one and the same time. We are taught that a Sikh should: "Be like a lotus flower, which having its roots in muddy water still flowers beautifully above it."

Another Sikh teaching, which should have been mentioned to help explain Sikh bitterness at events in the Punjab, is our strong emphasis on tolerance. Not the negative tolerance of "putting up with", but a willingness to lay down your life for another's beliefs. In today's context it should be remembered that our ninth guru did precisely this when he was publicly beheaded by the Moguls for defending the right of Hindus to worship in the manner of their choice. Would that there were more Yorkshiremen in the world today!

INDARJIT SIN
London Editor, Sikh Messenger

SIR—The Sikhs are neither Hindus nor Islamic, but have naturally emerged within the culture of India. Sikhism holds both Hinduism—its cradle (*leela*)—and Islam—its playground (*Kudrat*)—dear to heart. According to the five prayers from the Holy Granth the real temple of God is in the heart, which cannot be desecrated by guns or heroin.

Hounslow,
Middlesex

J. S. BANCIL

Iran's fighter aircraft

SIR—Your suggestion (May 26th) that the air force of Iran has only 20-30 Phantoms and a few dozen F-5Es is incorrect. In spite of the war that we have had since 1980, Iran's air force is still powerful and can help other Iranian forces in the war. The number of Iran's fighters in condition to fly is greater than the number you give. Also nothing is mentioned about Iran's F-14 Tomcats. This is very surprising. Iran's air force has at least 30-40 Tomcats in condition to fly. This is not an empty claim, because everybody can observe the flight of F-14s in Iran's airports.

Isfahan, Iran

A. A. KHAZAEI

Commodity prices

SIR—Your leader on the international coffee agreement (June 9th) ignored the consequences of an end to price support for producers' external debts, and drew an unrealistic comparison between commodity agreements and free markets.

True, the coffee agreement

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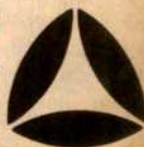
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LETTERS

has, albeit inadvertently, brought prices to within spitting distance of the suspension of quotas. But the mechanism of a quota suspension was written into the agreement to cover the eventuality of a severe frost in Brazil. In contrast, the present level of prices stems from a shortage of quality coffees in particular origins. This has had an exaggerated effect on the market because, as yet, the agreement lacks the mechanism rapidly to redistribute quotas in such circumstances.

In your desire to see the "free" play of market forces, to avoid such distortions, you risk throwing out the baby with the bath water: suspension of quotas could only bring a collapse in the market. Moreover, as with other primary commodities, the choice is not between an international agreement and a near-perfect market.

A welter of regulatory mechanisms, duties and subsidies divorces world market prices for commodities from those paid to producers and those faced by consumers. In the case of coffee, the market has a long history of producer-inspired price support, from Brazil's destruction of surplus stocks, to the market manipulation carried out by Pancafe on behalf of Latin American producers in the late 1970s.

London DAVID ANDREWS

SIR—You advocate the further development of the International Monetary Fund's compensatory funding facilities for those countries burdened by falling commodity prices. But borrowed money, however cheaply lent, does not compensate for commodity prices which are below the cost of production. You should be encouraging more commodity agreements. The current problems for many of the smaller countries who grow sugar, arising from the long run of unworkable prices, are enormous. The European Community countries' immoral approach to sugar dishonours us all.

If the countries concerned will get together to regulate supplies to the market in co-operation with importing countries, they would not need to borrow money which only remunerative commodity prices will enable them to repay. The bankers, too, should be paying for commodity agreements. Such agreements are a form of enlightened self-interest at its best.

Dunblane,
Perthshire COLIN CAMPBELL

High-tech

SIR—Your article "Fast fries or high tech" (June 16th) is one of the most succinct and fundamental I have read since I first took *The Economist* in 1961. So much fashionable rubbish has been written over the past few years about manufacturing industry inevitably moving to low-wage countries. Your article grasps the point that investment in applied high technology is what produces high productivity—not low wages.

In contrast, your article of the week before "When the oil runs out" was one of despair. This seemed to put forward the view that price competitiveness will only re-establish itself when the oil does begin to run out. At that stage there will not be any cash to invest—it is now or never.

Chichester H. C. WINGFIELD-
West Sussex HAYES

Ulster

SIR—Dublin and London willing, there could be a path through your Northern Irish bog (June 2nd). It would lead to a testing ground for joint authority, which you rightly call the most plausible option. A single border county would serve this purpose well; none would do better than relatively tranquil Fermanagh. There, those conducting the experiment could pull out that shopping list of which you write: trade co-operation, border development, collaboration on energy resources, agriculture, tourism, cross-border security, joint anti-terrorist courts, joint citizenship. A light turned on in Enniskillen might shine through the entire North one day, and, perhaps, even beyond Ireland.

Cape Elizabeth,
Maine LAWRENCE RALSTON

SIR—Your analysis of Ulster brought back memories of my visit in 1949 as an RAF aircraftman.

To me, as an 18-year-old London grammar schoolboy, the experience was a revelation of degrees of bigotry I had never before encountered. It was a period of Irish tranquillity. The RUC "B" Specialists reigned unchallenged and the armed (even then) RUC constables were virtually masters in Londonderry—with their tales/myths of cells with hooks where they suspended drunken sailors to dry out. Naive as I was, it was astonishing to learn that there were two Londonderry tennis clubs (one Prot-

estant and one Catholic) who never played against each other. There were other surprises: asking a Protestant lady for directions and, when I thanked her, receiving the remarkable answer "It is always a privilege to help one of the King's servants".

I was in uniform, and that is how I cycled over the border to Letterkenny to buy things still in short supply in rationed Ulster. I found the Southern Irish more friendly and helpful than the unsmiling Ulstermen and women. But this was a time when integration would have been possible: RAF Irish Catholics and Protestants were united in their common Irishness.

But the Protestant aristocracy was unyielding and paid no attention to the gerrymandering you rightly referred to. They must carry a lot of responsibility for the subsequent carnage that could have been avoided.

London W. WATTS

SIR—Your central thesis on Ulster's economy seems to be that the bulk of unemployment in Northern Ireland is of the "classical" type: ie, voluntary, caused by too high a level of wages and benefits. However, such a thesis is incapable of explaining why Northern Ireland has consistently had the highest unemployment of any region in the United Kingdom.

In the 1930s social benefits were far from generous, perhaps 36% of the population of Belfast was in absolute poverty, but unemployment was about 28%. Furthermore, it should be noted that the period when Northern Ireland's economy did best relative to the rest of the United Kingdom (per capita income rising from 60% to 75% of the average in the United Kingdom) was 1941-45, when Keynesian demand expansion rather than wage-cutting was being applied.

Cambridge J. E. BIRNIE

Coal strike

SIR—Mr Simon Beagles (Letters, June 16th) suggests giving loss-making pits to the people who work there, or to the local community. But surely they also want the subsidies? In South Wales, the average weekly loss in 1982-83 was £120 per worker.

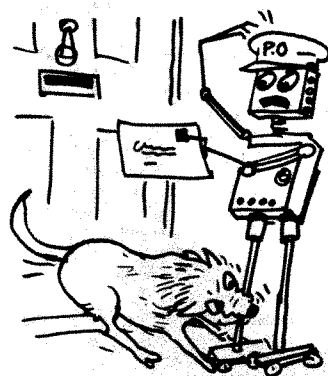
As Kipling might have said: "Once you have paid them the minegeld, you never get rid of the mine."

Cranfield
Bedfordshire D. R. MYDDELTON

Post Office

SIR—Your article on the Post Office (June 9th) contained views I would once have concurred with. I changed my opinions after spending three years as a postman.

Automatic sorting has some terrible drawbacks. The machines break down, working on automatic sorting is incredibly



boring and the hours are usually 3pm-11pm. Men can make sense of botched addresses, machines cannot. Post-codes are still used by few people, and at Christmas postmen spend a lot of their own time trying to work out addresses such as "top flat, Blogtown".

Dukinfield,
Cheshire M. PAVASOVIC

As they were

SIR—Your correspondent's remark (June 2nd) regarding Mrs Maria Estela Peron's previous occupation is both silly and meaningless. Mrs Peron is as much a former night-club dancer as Mr Reagan is a former mediocre Hollywood actor or Mrs Thatcher the daughter of a shopkeeper. Former professions or backgrounds are no yardstick for political skill.

Norsborg,
Sweden HIPOLITO FRANGI

First name history

SIR—What a splendid idea, voiced by Mr Peter Elkan (Letters, June 2nd), that leaders' first names pinpoint their countries' cultural traditions. So we have a perfectly European Zimbabwe (Joshua, Robert), a wholly Christian South Africa (Peter) as well as a French-type militaristic El Salvador (Napoleon). The Viking tradition in Britain goes without saying with all those Harolds. America's will be known only when more congressmen are called Sitting Bull.

Quillan, France EDGAR KNOBLOCH

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PAPUA NEW GUINEA COFFEE INDUSTRY BOARD

AGRICULTURAL ECONOMIST

Applicants are invited from suitably qualified candidates for the post of Agricultural Economist for the Papua New Guinea Coffee Industry Board which is primarily a coffee growers board. It has wide legislative powers to ensure the orderly marketing of coffee in Papua New Guinea. Through the management of the Coffee Industry Fund, the Board also provides price stabilisation, price equalisation and stock-holding arrangements for the industry.

Applicants must have a degree in Agricultural Economics or Economics and preferably a higher qualification with a minimum of three years practical experience in a commodity or other similar field. The applicant must be prepared for frequent travel within Papua New Guinea.

The basic salary is K18,670 for an initial contract period of three years with option to renew. Benefits include a gratuity of 24% of basic salary taxed at 2%, six weeks leave per year with home leave entitlements every 18 months, free housing and overseas education allowance where necessary. (K1 = £0.775).

Applicants should send a detailed curriculum vitae together with the name and address of 2 referees to:

M. A. Wheeler,
Papua New Guinea High Commission,
14 Waterloo Place,
London SW1R 4AR.

Applications close on 17 August 1984. Interviews will be held in London in September.

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2. Establishing and strengthening collaborative links with national agricultural research and training programmes in the region (Morocco and Pakistan) and where appropriate, in less developed countries elsewhere in the world.
3. Developing research and training linkages with regional and international organisations and centers and with appropriate resource institutions in advanced countries.
4. Establishing and monitoring the execution of cooperative agricultural research and training projects.
5. Supervising the regional offices of ICARDA (currently Cairo, Tunis, Amman, Beirut).
6. Assisting the Director General in contacts with Governments in the region and with donor organisations.

Qualifications:

1. PhD degree in an appropriate field of agricultural research.
2. A minimum of five years in research leadership position.
3. Wide international experience and proven leadership ability.
4. A good knowledge of the Near East and North Africa region.
5. Fluent in spoken and written English essential. Knowledge of Arabic and/or French very desirable.

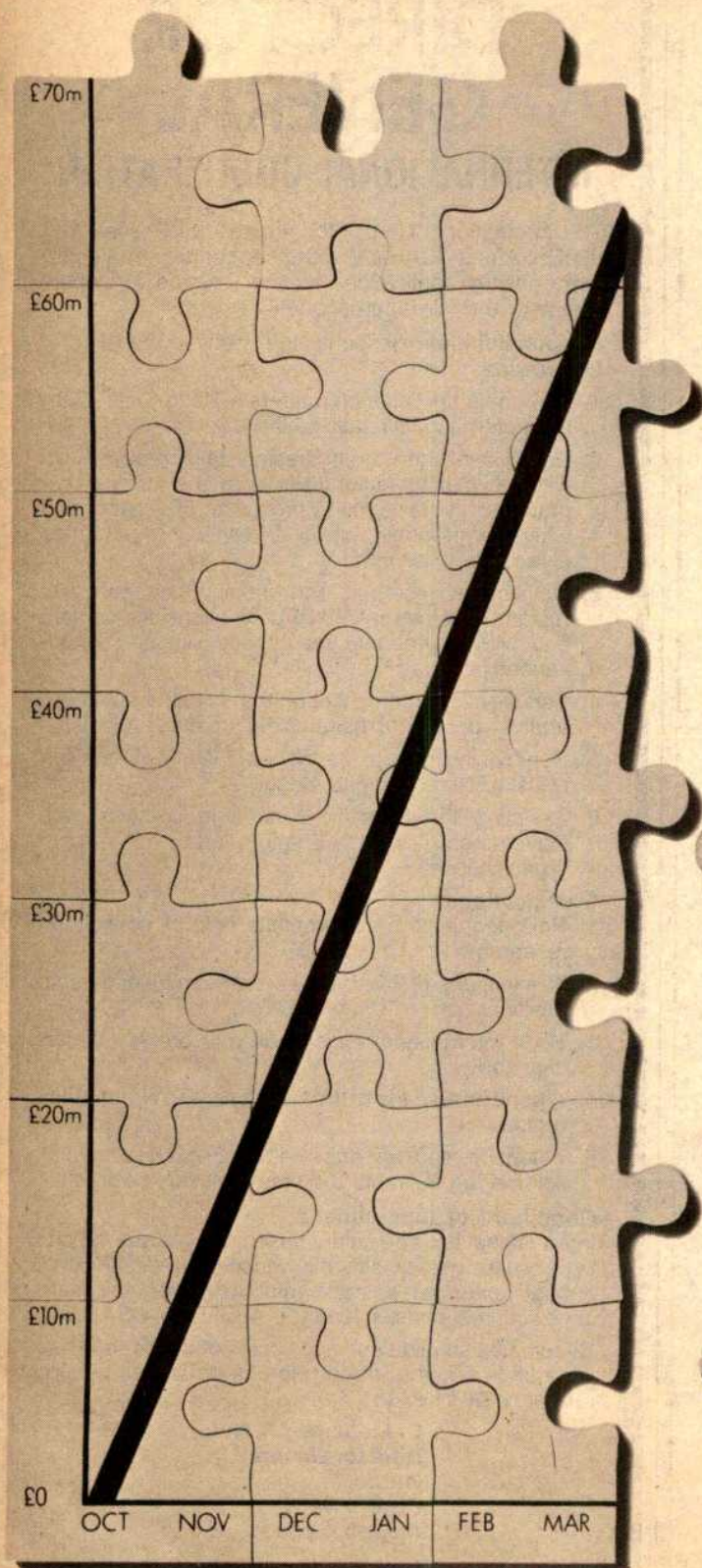
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Candidates should send two copies of their curriculum vitae and names of three referees by airmail quoting reference DIR/1/84 to:

Dr Mohamed A. Nour
Director General
Icarda
PO Box 5466
Aleppo, Syria

Half way through the year and things are shaping up nicely.



Hanson Trust has reported pre-tax profit up 90% to £64.4 million (£33.9 million) for the six months to March 31, 1984. The interim dividend is up 31% to 1.75p per share and earnings per share increased 50% to 6.9p.

And yet these record results include only one month's contribution from London Brick and nothing at all from US Industries Inc.

They reflect a continuing determination to invest in good basic businesses in the UK and US. That persistence has put Hanson Trust amongst the top 20 UK quoted companies and Hanson Industries Inc., with its American operations, amongst the largest 200 companies in the US.

This approach, combined with the philosophy of management for prosperity, gives Hanson Trust confidence to look forward to its twenty first year. As Lord Hanson said on June 5, "The board is confident that our excellent progress will be sustained into the future."

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Loyalties clog

Thirteen weeks into the present coal strike, a Mori poll found 35% of Britons supporting the claims of the leadership of the National Union of Mineworkers—not many fewer than the 41% supporting the National Coal Board. To the sort of people who read or write *The Economist*, this extent of public support is astonishing.

The miners themselves are divided about the strike. Their leaders are demanding huge subsidies, and huge extra energy charges for all British industry, in order to keep open geologically used-up pits where working conditions are horrible and production costs over the moon. The actions of their pickets against colleagues who have voted not to strike are always anti-democratic, often illegal and sometimes criminal. Their chief spokesman, Mr Arthur Scargill, presents their arguments with a degree of obfuscation that is mendacious if calculated, and pathetic if unknowing.

Yet a third of the British public supports their cause. The government and the coal board imagined that a protracted strike would be gradually undermined by a drift back to work. There is not much current behind that drift. Among those miners who speak up (most keep their mouths prudently buttoned) determination has increased as the dispute drags on. This is as true among the non-striking miners of Nottinghamshire as among their neighbours from south Yorkshire who try to beat them up as they go in.

We're as proletarian as daddy was

Prosperity has, despite all the predictions, only dented the emotional self-identification of the British working class. Over the past 20 years the proportion of households living in homes they own has risen from 40% to 60%; the proportion of adults with bank accounts from 25% to 60%. But, according to the careful new survey published as *British Social Attitudes* (Gower Press, £9.95), 69% of a large sample of the British public last year regarded themselves as working class, and 70% thought their parents had been working class. Half even of Britons earning over £12,000 a year thought themselves working class. Most underground miners earn more than that, but most white-collar workers do not. Market researchers, like very old-fashioned Marxists, may identify class as a function of assets owned and income received. But in Britain, especially outside London, class is a psychological condition, built upon

occupation and accent and district and the time you eat your meals.

This kind of British class identification is deeply wasteful of human resources. Half the children of professional and fairly senior managerial fathers now go into full-time education after school. Fewer than 10% of the much more numerous children of manual workers do, and when they reach posh bourgeois universities they are often unhappy there.

Mr Scargill's arguments for striking can be seen to be ridiculous by most people educated to form their opinions by observation of facts. But Britain is a country where 90% of 69% of the population is emotionally inclined to believe the fibs which people like Mr Scargill tell to them. This is not an unmitigated boon to the left. When there is an issue like the sinking of the *General Belgrano*, where the educated internationalist left feels bound to engage in worried debate, most of the British working class treats the educated internationalist left as traitors.

The self-identified British working class has smoothly adopted some new material habits—holidays in Spain not Blackpool, lager not bitter. But it does not admit new ideas at all. It attaches itself to actual places, familiar institutions, known people. Old-fashioned English public-schoolboys similarly gave their loyalty to a house or a team, rather than to scholarship or to any idea of using higher education to make Britain more dynamic. But, during most of this now five sixths completed twentieth century, the main cultivators and beneficiaries of this deep-rooted conservatism have been the institutions of the working class—the British trade union movement and its offspring, the Labour party. Even when the trade unions are prevaricating and the party is openly divided against itself, they enjoy a residual piety. It translates itself less each decade into going to meetings or turning out to vote, but it serves as an impermeable block against the infiltration of new forces. Ask any canvasser for the Social Democratic party who has tried to make headway on a council estate.

Because this solid loyalty is to past realities, Nottinghamshire and South Wales pit villages both want life to go on as they have known it. The Notts people see this can be ensured by carrying on working in a mine with a future, the Welshmen by striking for subsidies to mines



with a past. The same happened in the interwar years when the Labour party last split into two; the left-wing half was then said to have destroyed itself, but it was returned to power with a huge majority in the next general election but one, and proceeded to impose the very right-wing policies of Ernie Bevin and Stafford Cripps. In those interwar years the Welsh miners struck and starved to defend the principle of uneconomically high wages, while the Notts men made their own deal with the coal owners, and broke away from the miners' federation to carry it through. The present leaders of the NUM are dodging a democratic vote because they suspect that democratic solidarity would once again give opposing results in different places, and break up their union. Argument and reason would not change the verdict either way anywhere.

The Mori poll on attitudes to the miners' dispute indicated that, of the public at large, 88% wanted the NUM to ballot its members, 76% thought Mr Scargill had handled his claim wrongly, and 61% believed the government should be more directly involved in sorting out the mess. Presumably people meant they wanted

the government to help towards a compromise. Epithets of extremist are applied to anybody who says (quite truthfully) that the concessions already made to the miners are cutting the nation's income in a way that is driving many more people out of work.

Because this working tribe learns slowly, it is important that attrition or, better, imagination win this strike in the end, the miners go back to work and grossly uneconomic pits are closed despite them. Some people will count up the casualties of the battle, as well as its result. The majority of the nation that identifies with the working class may well not want to see a section of that class—even a section whose conduct they disagree with—driven to too obvious defeat; the outright victory by the coal board which the government wants will probably not make the government immediately more popular. But Nottinghamshire miners and realistic believers in both accountancy and constitutional propriety will feel quietly supported if nonsense is defeated. And the glacier of old loyalties might melt a yard or two faster into the stream of economic change now benefiting Britain's working class.

Herself

Margaret Thatcher as foreign policy maker

The reduction in Britain's EEC budget bill is more than anybody in Britain or the rest of Europe would have thought possible five years ago. That much is a tribute to the unusual kind of prime minister that Mrs Margaret Thatcher is.

Yet the whole of this latest bout of British budget bargaining in Europe puts a question-mark over Mrs Thatcher as a foreign policy maker. She knows she wanted more and thought she could get more. Her bargaining power went when she lost control of her party over withholding payments to Brussels; so her supporters in Britain are left disappointed, her opponents to make capital from her discomfiture. A modest budget benefit for Britain, but the ceiling on EEC spending breached, the farm policy trimmed not reformed. This has gained her little in the rest of Europe.

More than instinct, but less than finesse

In the compromise she made at Fontainebleau—and notably in the skilful pre-emptive concession she made on figures (see page 41)—Britain's European partners have seen that Mrs Thatcher's reputation for pragmatic reasonableness at the end of the day is deserved. Outweighing that, however, they see a perennial bluffer whose bluff can be called, a kneejerker whose knee can be stroked; and somebody who has soured European politics through months and years at a time when world events badly required it to be sweet, all for a deal that could (such things are always easier in retrospect) have been struck much earlier.

The rest of Mrs Thatcher's foreign policy record is a



similarly mixed one. Her relationship with the United States is not what conservative common ground and personal liking for the present president suggest. Uneven response, impatience mixed with courtship, simple lack of knowledge have reduced Mrs Thatcher's influence over economic and foreign policy in Washington. Unconsulted over Grenada (and badly briefed by her own advisers) she allowed the heat of the moment to boil her reaction out of all proportion, thereby offending an America whose massive secret arms supply helped win her the Falklands war. Smiles are back in fashion, but fundamental sympathy and trust for her in Washington have gone, probably for good.

Her conversion to being a good European itself dates from her assessment in opposition that post-Nixon, post-Vietnam America was a jumpy, if essential, ally that could not always be relied upon. Yet Mrs Thatcher has patently failed to convince anybody that she is really a "good European" either. Her east European policy is, equally, not coherent. She discarded her iron lady's clothing last autumn, she has visited Hungary. The door to Moscow has been ajar since she mentioned Russian sacrifices during Hitler's war. But she cannot easily walk through it without undermining Mr Reagan—and all she stands for herself. As for a Thatcher foreign policy in the world beyond Europe and America—to compare with, say, President Mitterrand's in Africa—it does not seem to exist.

There is plenty of sound instinct in Mrs Thatcher. Of timing and strategic sense there is little. She can be accused of failure, rightly or wrongly, over the Euro-

budget affair. She can be accused of it, rightly, over Hongkong, where her premature lurch into the breach helped not a bit. And but for Lord Carrington's and Lord Harlech's well-timed persuasion, she probably would have been accused of it over Zimbabwe.

The book is not all written. In common with all sufferers from Downingstreetitis, Mrs Thatcher has

caught the foreign policy bug, but only recently. She has one thoughtful long-range adviser, but her attempt to equip Downing Street with its own foreign policy centre falls between every stool: a suitable idea in the hands of unsuitable people. And, as in so much else, Mrs Thatcher's central strength in foreign policy making is her central weakness: herself.

Banking on Latin America

With ever higher dollar interest rates banks cannot continue to pretend debts will be paid on time

Barely had Latin American delegates checked out of their hotel rooms at the "debtors' cartel" meeting at Cartagena in Colombia than the prime rate of American banks was raised this week to 13%. It is the fourth half-percentage-point increase in dollar interest rates this year and adds a further \$800m to Latin America's annual interest rate bill. Cry for all Latin American debtors, especially Argentina. Here is the IMF pressing President Raul Alfonsin to prescribe "austerity and sacrifice" at the same time as Argentina's chances of servicing its debts recede. That selling job in Argentina, and in Brazil, Mexico, Peru and the rest, will be less impossible if western banks demonstrate that they are making sacrifices too.

It is time, in short, that banks' books start to be rewritten to recognise the fact that they will not get their money back on time. American banks in particular have so far fudged this truth by such arrangements as the *mañana* loan put together by other Latin American countries in March, and backed by the United States treasury. This allowed Argentina to pay interest on its debts up to January 2nd this year. If the bank books were not exactly cooked in this deal they were certainly warmed over. American bank regulations, since tightened, then said that if by the March 31st reporting date interest on a loan was 90 days overdue banks would have to classify it as a non-performing loan and not count accrued but unpaid interest as earnings. The *mañana* loan made the interest "only" 89 days overdue. Such creative, not to say fictional, accounting has increased, not calmed, jitters on the world's stockmarkets and money markets.

For a lead, American—and British—banks with Latin debts need to look at how most West German and Swiss banks have proofed themselves against scares on their Polish debts by providing reserves to cover at least half of them. And also at the way New York's Manufacturers Hanover, after a stockmarket run on its shares, detailed in advance in a debt prospectus exactly how an Argentine failure to meet interest payments due by June 30th would hurt its quarterly earnings.

This is just a start. American and British banks will also have to help themselves by building up their reserves. At the end of 1983, the 10 biggest American banks had loan-loss reserves of \$4.9 billion. Britain's big four clearing banks had "general provisions"—

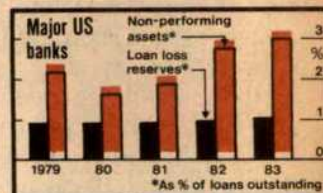
reserves not tied to specific sickly loans—of just over £1 billion. True, big American banks have been increasing their capital to comply with stricter regulations; so their ability to absorb losses increased by more than is suggested by last year's 12% increase in loan-loss reserves. True, British banks pushed up their general provisions by more than two thirds in 1983. None the less, big banks' reserves in both countries are still insufficient to soak up more than a fraction of their bad debts if Brazil, Argentina or Mexico for one reason or another defaults.

Buy the shares of banks that cut dividends?

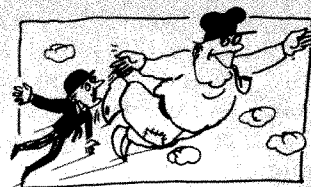
Bankers are pleading that they cannot raise capital, increase their reserves and take larger write-downs of debts and simultaneously grant easier terms to their Latin American borrowers. Indeed, they cannot. A 1% loan-loss reserve for Latin American loans would have reduced Bank of America's and Manufacturers Hanover's pre-tax profits by more than 10% last year.

America's big 10 banks increased their dividends by an average of 6% in 1983. Prudence suggests that those with most to lose in Latin America should now brave the American stockmarkets' short-sighted preoccupation with quarterly income and cut their dividends. This would probably not reduce their ability to raise fresh capital. When in an admittedly tired bull market the shares of Chase Manhattan, Manufacturers Hanover and Lloyds are standing on price/earnings ratios of four or less, it is clear enough that the market has already discounted reported earnings quite a bit. For the banks now to admit their problem loans and show they are coping with them would increase, not decrease, confidence. A bank that cuts its dividend might be a stock worth buying again.

Whatever they do, though, the banks to stay solvent need indirect help through some device to help their Latin debtors. These debtors have to pay interest rates pushed into the teens by America's Federal Reserve's need to keep money tight to balance a too-loose American pre-election budget. The banks could help Latin America and themselves by supporting the call made at Cartagena, and previously by this newspaper, for an interest-rate facility at the IMF. This would help the debtor countries by providing special loans to tide them over periods of abnormally high interest rates.



Airlines talk double Dutch



Ignore lobbying by British airlines against the Anglo-Dutch agreement that cuts air fares

The most imaginative international civil aviation agreement ever signed is prompting narrow-minded nationalism. From Sunday, July 1st, the sky between Britain and Holland will be open to true competition. Any airline from either country may serve any route between Britain and Holland as often as it likes and with as many seats as it likes; and neither country will be able to veto a lower fare allowed by the other. Time, surely, for applause from Britain's airlines. They can introduce their proposed £49 (\$66) return fares—heavily restricted but still £38 cheaper than before—and prove they are better than their Dutch rivals.

They are applauding—with one hand. The threat of real competition is turning Britain's airlines into little Englanders and Scotlanders. Too shamefaced to say so in public, they are privately accusing Britain's competition-minded transport minister, Mr Nicholas Ridley, of "surrendering" Britain's interests to Holland's KLM airline. Mr Ridley agreed that "the airlines of either country will be entitled to match the tariffs of the other over their respective route networks". This means that KLM will be able to fly passengers from London to Amsterdam and then on to, say, Singapore at the lowest price charged by British Airways for the direct London-Singapore flight. The British airlines fear this competi-

tion will compel them to offer more cheap seats. They say that Britain, with a catchment population of 56m, will see part of its share of international travel "stolen" by Holland, with only 14m.

They may be right. But so what? Too many agreements in the past have been framed to favour the airline at the expense of the passenger. Commercial aviation is as mature an industry as making shoes or selling fruit. There is no case for protecting British Airways, with the world's best international route structure, or cost-efficient British Caledonian from foreign rivals.

Britain's airlines should stop whingeing. Though KLM may persuade more people to pass through Amsterdam's Schiphol, the process can work both ways: Virgin Atlantic Airways is offering to fly people for a mere £20 to London from Maastricht, which is a short car journey from Liège or Dusseldorf or Cologne, to connect with Virgin's flights to America.

The Anglo-Dutch pact may confound those who say deregulation like America's is not on in Europe's sovereign states. It promises to force similar deals from neighbouring countries fearful that otherwise their airlines will fly empty. Eventually, it may even force a common market for European aviation. Airlines opposing that do not deserve passengers.

The sewers of Japan

A good idea for the good Mr Nakasone to pinch

It is no shame for smart politicians to pinch rivals' ideas, provided the ideas are good ones. Japan's prime minister, Mr Yasuhiro Nakasone, has a chance to become the most respectable sort of pincher. His job is threatened by Mr Kiichi Miyazawa, who plans to run against him in their Liberal Democratic party's leadership election in November. Mr Miyazawa is offering a bold plan to "double Japan's assets" in a decade—meaning more public spending on housing, roads, sewers and parks—which could win him the party election and, with it, the prime ministership. The Miyazawa plan makes good economic and social sense. But Mr Nakasone has the force of character to make a better prime minister. Solution: let Mr Nakasone snaffle Mr Miyazawa's policy.

The argument against Mr Miyazawa as prime minister is not that he is incapable. He has filled most major cabinet jobs; he is sharp and knows a lot about foreign policy; he has a stronger grasp of economics than Mr Nakasone. Where he differs from his rival is that Mr

Nakasone likes to say radical things about Japan's straitjacket of a constitution, its feeble defence effort and its half-in-half-out place in the western alliance. Mr Miyazawa prefers discretion. The present incumbent still looks the more attractive option.

The fact that the prime ministership is up for contest in November is a result of the Liberal Democratic party's factional squabbling and its Buggins's-turn mentality. Japan does not need a change of leader, less than two years after Mr Nakasone took over the prime ministership. Since then he has had to spend far too much time dodging political booby-traps instead of making policy. His radicalism deserves a chance. Mr Nakasone needs another two years in office if his ideas are to be properly tested.

Yet there is a lot to be said in favour of his rival's economic ideas. For this newspaper to support a plan that involves a fairly large amount of extra public spending and a bigger government deficit may sound surprising, since we have been urging most other

CORB. SPORT

by Frank Keating



As the teams emerged from the tunnelled gloom into the sunlit din of Wembley on its day-of-days at the 1984 Cup final, I made a point of picking out George Reilly, the hunky, uncomplicated, son-of-a-gun centre-forward who was to be Watford's most effective player that afternoon. Reilly is a Scot who learned his football with the Corby Town boys' team. Many *McFitba's* have done the same—indeed the symmetry of the half-century was almost precise, for the first Scottish footballer with Corby connections to grace the lush lawn of Wembley on Cup final day had been Alex James of Arsenal, that wee limbed, long trousered philanthropist of the penalty area, whose play had won the Cup for Arsenal in 1936.

GLORIES OF SCOTTISH SOCCER

Those 48 years between James and Reilly represent an original slice of social, industrial—and sporting—history, during which time the steelworks have come and gone, but the Scottish steelworkers have stayed and “diversified”—and continued to teach their sons the simple and subtle glories of Scottish soccer.

Way back in the mists of the 1950s, as a cub reporter, I was “Wanderer” of the *Hereford Times*, and each Saturday, home or away, I reported the doings and don'ts of Hereford United in the Southern League. That's when I first went to Corby, when “the Steelmen” of Occupation Road would inevitably beat us (if they didn't, the hale, purple-cheeked, cider-making United directors would buy the team a steak in Queen Square before the charabanc left for home: if, as usual, we lost it was a cup of coffee in Kettering).

TAKE ROOT AND FLOURISH

At Corby too I thought of the parallel with Northamptonshire's new

town, when I was told how Celtic's ground at Parkhead had been opened by the Irish patriot, Michael Davitt, in 1892. He had laid the first turf and recited—“On alien soil like yourselves I am here/I'll take root and flourish, of that never fear.”

Exiles, too, have taken root and flourished at the local cricket—the unforgettable Australian, George Tribe, with the smile and the back-of-the-hand Chinaman, and the two Geordies who loved and were loved by their adopted county, Frank Tyson, the fastest bowler in the world, and the one-and-only moon-faced smiter, Ollie Milburn. Rugby Union as well has a vibrant tradition in the area. Dick Jeeps, mudlark scrum-half Jeff Butterfield, coruscating centre, and that front row prop of roly-poly granite, Ron Jacobs, are just three of the legendary local figures who are now giving back to the game as natural administrators some of the spirit they encountered first with the grass roots fun of Saturdays around Corby.

I once covered the Northamptonshire rugby Sevens festival. Jeeps was not playing, for in those days there was a fashion to put a runner or even a hard-nut forward at scrum half in Sevens. So the electric dasher, Butterfield, was given as scrum-half the uncompromising scrummager, Jacobs. It was not the smoothest of partnerships. Afterwards Jeff explained: “I didn't too much mind getting the ball along the ground all the time, or even having to fall on it; but what worried me when I did go down was that it was always Jacobs who was first to kick me in the back!” Happy days.

IN THE VANGUARD

Corby caters lavishly for the great team games. But only a glance at the rumbustious local rag, the *Evening Telegraph*, shows the town has even more

CORB. WORKS



Frank Keating on his own admission in Who's Who, plays 'bad village cricket' and 'worse golf'. But, as sports columnist of The Guardian since 1976, he has twice been named Sportswriter of the Year. Frank Keating came to The Guardian in 1972 from Thames TV, where he was features editor and head of special projects. Before this, his journalistic career included stints on Stroud News, the Hereford Times and the Bristol Evening Post. He has contributed to Punch, the Spectator and other periodicals, and is the author of a number of books.

to offer the sportsmen and women: hockey, tennis, bowls, golf, swimming, sailing, riding...and indoors too, where Corby has been in the vanguard of Britain's Sport Centre revolution in the past decade or two. And for the rambles, and of course the huntin', shootin' and fishing types, well Corby is at the very core of the legendary “Shires” country. Enough said—except to quote from the US magazine *Newsweek* of a year or so back, when another contented settler put down his roots in Northamptonshire—“English country gents often hunt birds, so no-one objected when a Sheikh from Abu Dhabi decided to try his hand at sport following his purchase of a luxurious English mansion in the Shires. But it distressed neighbours when he arrived for his first shoot with—a machine gun!”

This article is number six of a series. They will be published together as a brochure entitled The Ecorbyist.

Copies will be available from Corby Industrial Development Centre, Douglas House, Queens Square, Corby, Northants.

governments to do the opposite. The explanations are that (a) Japan has prospered hitherto, unlike the west, by keeping its industrial investment high and its government investment low—so by now, not unnaturally, it has a backlog of government infrastructure rather than of modern industrial machines; and (b) in Japan breadwinners save 18% of their incomes, compared with 6% in America, so Japan can afford to run a budget deficit nearly three times larger as a percentage of gnp than America should afford. So long as the Japanese government does not go bananas, spending more need not be inflationary.

There are plenty of things in Japan on which more government money can sensibly be spent. While Japan's export industries knock on the twenty-first century's door, its sewers are stuck in the nineteenth. Why, as Mr Miyazawa says, should a Japanese woman dressed in the latest Paris fashions have to step over a sewer ditch to get into her cramped little home? (An amazing two thirds of Japanese households are still not connected to main sewers.) Why, outside Tokyo's double-decker motorways, are Japan's roads so lousy in

a country of motoring fanatics?

Building a better Japanese infrastructure need not involve an inflationary cascade of public money. Mr Miyazawa wants to achieve his targets by 1995, not overnight. While Japan has concentrated on making cars, it has taught the world efficient carmaking; it might be useful for the west to learn efficient sewer-making from it. Japan can go on trying to cut back surplus bureaucrats, sell off publicly owned companies, and trim other forms of waste. But it should not let itself get obsessed by retrenchment.

A more expansionary fiscal policy would help to ease that terrifying trade surplus by boosting domestic demand (which, in turn, raises imports and diverts exports). It should help to raise Japan's interest rates (which need to go up, just as America's need to come down). It could also unblock Mr Nakasone's admirable desire to spend more on defence, by making it clear that here too a modest rise in public spending is respectable. An imaginative post-November reshuffle: appoint Mr Miyazawa as Mr Nakasone's economics or finance minister?

Out of the frying pan

Proper labelling of fatty foods could prevent a lot of unnecessary heart disease

Any doctor worth his salt agrees: an excess of fat in dairy products, red meat and eggs is a remorseless killer. Among the few governments that have bothered to inform their citizens of these dangers are those of the United States, Australia and Finland. This has paid off. One third fewer Americans are dying of heart ailments today than 15 years ago. In Britain, with its traditional fat-laden diet of eggs and bacon, roast beef, suet pudding and chips, one person dies every three minutes from coronary heart disease.

People should, of course, be left free to kill themselves this way, or any other way bar instant suicide, if that is what they wish. Eggs and bacon are a pleasing way not to live too long (though they also make the last illnesses nastier than they need be). Moreover, as in smoking and cancer, no single trial has been able clinically to link unsaturated fats and cholesterol with heart disease. But the circumstantial evidence, as with smoking and cancer, has become overwhelming. Too much fat brings more heart disease, particularly among people who are high-risk for other reasons.

Let people know what they eat

Eaters need not be forced to live on salad and bran. They simply need to be told of the risks they may be taking each time they tuck in. Keeping the right side of this distinction should be quite easy for governments that have an interest in reducing their health-service bills. For instance, one group of doctors, economists and civil servants in Britain has drawn up a plan to combat heart disease by publicising the joys of a less

fatty lifestyle. An education campaign, like that against smoking, might cost £20m a year—ie, less than 0.2% of Britain's health spending. Apart from advertising the dangers of eating too much fat, the group wants food on British shop shelves to be properly labelled so that there can be no doubt about the amount and type of fat that butter, milk, cheese, sausages and pork pies contain. A Whitehall report is expected to endorse the group's proposals.

Others want to go further and require butter, and some forms of margarine, to carry health warnings as cigarette packets do. They should be sat upon. That would add anti-fat bores to the anti-smoking ones, with less reason. Fatty foods in moderate amounts are not harmful, as cigarettes are in any amount, and it cannot be argued that fatty foods irritate or harm innocent bystanders. It will be better to tackle the fatty food problem through the marketplace by copying the Americans—telling consumers exactly what is in their food and letting a better-informed public choose.

Another thing European governments could do, without causing their pampered farmers to down pitchforks, would be to switch subsidies from creamy products and the intensively-reared cattle that are a source of unnaturally fatty meat to things like skimmed milk. American farmers have been getting rich selling the low-fat foods their customers are now demanding. Farmers in Europe, living off the fat of the EEC, may not like it, but it is time a better-informed public decided its own food preferences instead of being herded to an early grave.



GLOBE IN 1984

AIMS

'Income growth sufficient to support dividend increases at least in line with any upward trend in the R.P.I.'

And

'A growth in asset values better than that achieved by the FT. Actuaries All-Share Index.'

ACHIEVEMENTS

	1984	1983	Increase	%
Dividend	9.00p	8.30p	8.43	(R.P.I. - 5.2)
Net assets per share	341.02p*	269.37p	26.60	(FT Actuaries All-Share Index - 27.25)

*Including revaluations of Tyndall Group Limited and freehold properties owned by Electra House Limited totalling £34.6m, equivalent to 14p per share.

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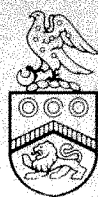
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Hambros

Mr Charles Hambro reports on Hambros PLC 1984 results

The year under review has been an eventful and successful one for the group. The upturn in world economic activity which has been particularly marked in the United States has continued, although there are increasing signs of stress coming to the surface, both within the United States and in the developing nations as a result of United States fiscal policies.

By far the most significant event for Hambros was the sale of the group's remaining 25% interest in Hambro Life Assurance to Charterhouse J Rothschild shortly after the year end. This disposal has resulted in a further £71 million being added to group reserves and in an improvement in short-term liquidity of more than £120 million. Our original £1 million investment in Hambro Life has, over a period of less than 14 years, returned almost £200 million in dividends and capital profits. The funds generated from this sale will provide us with substantial liquid reserves enabling us to take advantage of new investment opportunities.

All areas of the group's operations performed well in the year, with one exception. Our balance sheet footings have

for the first time passed the £3,000 million mark, reflecting the satisfactory progress within our traditional banking business. Our insurance broking activities have had an excellent year and our diamond interests show progress. New management of Hambro Gas & Oil has started energetically to tackle our US oil and gas problems. It is disappointing that these interests remain

loss-making and we are determined to eliminate them.

"An eventful and successful year"

In March of this year we reached an agreement with the partners of stockbrokers, Strauss, Turnbull & Co., to acquire a 29.9% interest in their firm and have also agreed jointly with them and Société Générale to form a new international securities dealing company to trade as principals in this new market. This investment will enable us to take advantage of the changing UK financial markets.

To meet the challenge of the future, Hambros has a highly dedicated and capable management team who are determined to ensure the continued prosperity of the group. To all of them and to our staff at all levels I offer my thanks for their untiring efforts in the past year.

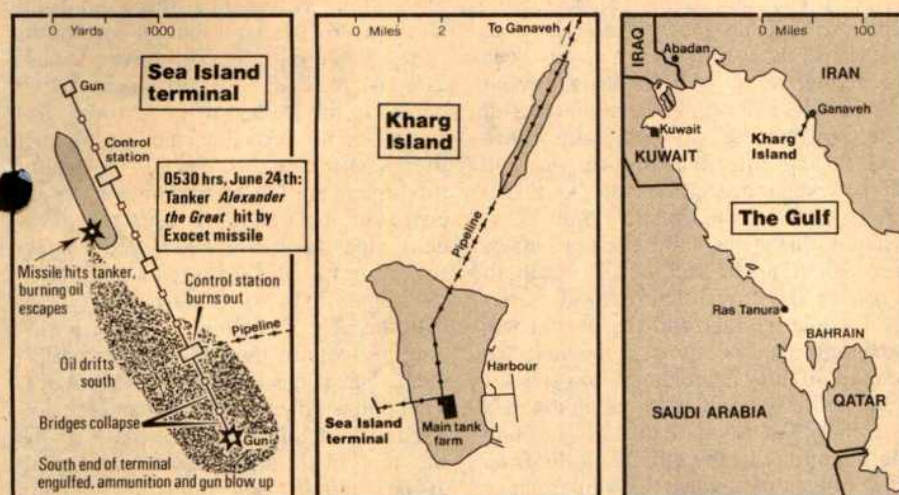
1984 HIGHLIGHTS

(Year ended 31st March)	1984 £000's	1983 £000's
Operating profit	10,226	9,403
Net profit/(loss) before extraordinary items	12,375	(9,166)
Net profit after extraordinary items	12,322	14,713
Shareholders' funds	127,996	110,578
Net dividends per 5p share	5.8p	5.275p

Copies of the annual report can be obtained from: The Secretary, Hambros PLC, 41 Bishopsgate, London EC2P 2AA.

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Exocet tries again



Tons of burning crude oil spilled into the surrounding sea at 5.30 in the morning of June 24th when a missile, probably an Exocet, ripped into a 325,000-ton Greek tanker berthed at Iran's Kharg Island. The missile struck the 1,115-foot-long *Alexander the Great* about a yard above the water line and 150 feet from the stern. It apparently exploded inside—as it is designed to do—tearing a wavy hole some eight feet wide and 60 feet long in the heavy steel side plating and causing heavy damage to the main loading pier. This first attack on a ship berthed at Kharg Island brought the war of the Gulf tankers to life again with a vengeance. Three days later Iraq hit a second tanker, *Tiburon*, at sea, about 60 miles to the south-east, and set it on fire.

Alexander the Great was lucky. The rush of oil through the hole in its side swept all the flames into the sea, averting a catastrophic fire in the ship. However, the heat from the oil burning on the water set the ship's paintwork alight, buckled some plating, destroyed a lifeboat on deck and started a fire inside the steering-gear room at the stern before the crew managed to cut the mooring lines and move the tanker away to a safe anchorage. Almost unbelievably, nobody on the ship was hurt. One reason for this was that the wind blew the burning oil away

from the stern and underneath the Sea Island pier, setting parts of it on fire and touching off an explosion in an ammunition store for one of the two anti-aircraft guns mounted on the pier.

Nothing has been heard to confirm Iraq's claim to have hit four other ships that day. Even so, the Kharg Island raid probably exceeded all its planners' expectations. Iraq's previous attacks on shipping have done no great damage, partly because its Exocet missiles have not all worked well. Since the first Exocets were delivered by France last October, up to 16 ships are believed to have been struck by

them, but no more than 10 have been severely damaged (see table), and there have been few casualties. Why is it that the Exocet, which cut a swathe through the Royal Navy during the Falklands war, has not taken a bigger toll of merchant ships in the Gulf?

Exocet was designed to destroy warships, most of which are much thinner-skinned than large merchant ships. And some of the missiles hit their targets but did not explode. A similar firing problem dogged the Argentines in the Falklands. The warhead of the missile that sank *HMS Sheffield* apparently did not explode: the damage was done by a fire touched off by what was left of the propellant charge, which was still burning as the missile broke up inside the ship. Experts believe that at least one of the two missiles that struck *Atlantic Conveyor* off the Falklands also did not go off.

This failure of the Exocet worries its manufacturer, Aerospatiale, though a British missile expert says that human error is responsible, in the form of improper settings by the armourers who load the missiles on to the helicopters or the Super Etendard aircraft that launch them. The Exocet is designed to run in a yard or so above the sea. Its guidance system aims it at the fore-and-aft centre of the radar picture. (Because Exocet radar needs a clear background to see the ship against, it cannot be used to much effect against targets ashore surrounded by clutter.) When it hits, the missile penetrates the hull by brute force: it is flying at around 500mph and weighs some 1,500 pounds.

The impact on the hull starts a time-delay fuse which will—if all systems func-

Iraq's missile record

Date	Ship (T=tanker)	What happened
November 3, 1983	Avra	Sunk, possibly by Exocet.
November 22nd	Antigone	Sunk, probably by Exocet.
December 9th	Iapetos	Hit and disabled, possibly by Exocet.
December 22nd	Breeze	Hit and severely damaged, possibly by Exocet.
March 29, 1984	Iran Dahr	Hit by missile, probably Exocet. Some damage.
April 18th	Rover Star (T)	Hit by missile, probably Exocet.
April 26th	Safina-al-Arab (T)	Almost certainly hit by Exocet. Caught fire and exploded. Total loss.
May 7th	Al Ahoud (T)	Hit by missile, probably Exocet. Serious fire.
May 13th	Esperanza	Hit by missile, probably Exocet. Light damage.
May 13th	Tabriz	Hit by missile, probably Exocet. Light damage.
May 19th	Fidelity	Sunk off Bandar Khomeini, possibly by Exocet.
May 23rd	Filikon (T)	Hit by missile, probably Exocet. Light damage.
June 3rd	Buyuk Hun (T)	Hit by missile near Kharg Island, probably by Exocet. Serious fire, three crew missing.
June 5th	Savoy Dean	Hit by missile, probably Exocet. Light damage.
June 24th	Alexander the Great (T)	Hit by missile, probably Exocet. Heavy damage.
June 27th	Tiburon (T)	Hit by missile. Light damage.

INTERNATIONAL

tion—blow up the 360-pound high-explosive warhead after the missile is several feet inside the ship, ideally somewhere around amidships. The Exocet carries more explosive power than a 500-pound bomb (about half of which is casing-weight), but even so can be ineffective against a supertanker.

Most of the tankers hit by Exocet have been struck in nearly full oil tanks. The combination of the heavy tanker hulls and the thick crude oil and compartment plates inside slows the missiles down; they have tended to go off only a few feet inside the hull. Much of the explosive force is then vented back through the hole the missile made in the hull. The ragged edges of the tear in the *Alexander the Great* were mostly blown outwards. Also tankers normally sail with a small "air pocket" in each tank above the hull. The crude oil is almost totally incompressible, but the air above it is very squeezable and can absorb some of the shock.

Although the Exocet is not ideal for attacking large tankers, it has not done badly in the Gulf war. If our table is correct (some of the missiles could have been Russian ones and not Exocets), seven tankers have been attacked: four of them were heavily damaged and one had to be written off.

Iraq has failed to halt Iran's oil exports because it has used relatively few Exocets and because there are hundreds of spare tanker hulls in the world today, along with a lot of unemployed seamen. Whether Iraq's maritime squeeze will ever work is not certain. But the message behind this week's attacks seems to be that it is going to try harder.

The oil moves, the heat rises

By attacking a tanker berthed at Iran's Kharg Island oil terminal, Iraq has taken the war nearer Iran's economic artery. So far Iraq has failed to block the oil flow by attacking tankers at sea. Iran is heavily discounting its oil to cover the extra costs of tanker insurance, and production is now back to its Opec quota of 2.4m barrels a day (see page 60).

The other Gulf countries, which were badly shaken when the tanker war began six weeks ago, may still be losing sleep, but not oil. Production has remained steady through the crisis. Saudi Arabia has been flying regular fighter patrols along its side of the Gulf to protect shipping. Kuwait has altered its tanker routes, shifting them westwards away from the Iranian coast. Both countries have offered to replace any oil lost be-

cause of the war.

At a meeting of the Gulf Co-operation Council in Saudi Arabia on June 23rd and 24th, the six non-combatant Gulf states set out a joint plan for strengthening their defences. Tankers are to be protected by air patrols, consisting mainly of Saudi Arabia's F-15 fighters operating with (and perhaps controlled by) American Awacs radar aircraft. The deployment of anti-aircraft missiles is to be increased. Just as the finishing touches were being put on the plan, the Iraqis re-opened the shipping war by the strike at Kharg, their first attack on a tanker for two weeks.

The Iraqis have talked of destroying Kharg Island altogether if the Iranians launch the land offensive that has been threatened since March. It is unclear whether the Iraqis have been holding off Kharg on purpose, or whether they have been having difficulties in hitting it; and there is even more bafflement about what has happened to the Iranian offensive.

The Iranians may have been put off by Iraq's flooding of part of the southern sector of the front. The natural water-level was dropping, and the terrain was becoming just about firm enough for Iranian infantry (though still too soft for Iraqi tanks) when the Iraqis announced that they had flooded the area around Majnoon island—the oilfield on the Iraqi side of the border which the Iranians have held part of since March.

To the north and south of Majnoon, the land is drying fast. The great summer heat, when the temperature goes over 50°C and even Iranians may want to avoid fighting, starts in mid-July. The Iraqis are confident that if the offensive does take place they can repel it. They say that there are not 500,000 Iranians massed on the southern sector, but more like 200,000. The Americans have also been revising their estimates downwards. The number of Iranians poised for battle is probably nearer 300,000.



Prayers may help, but flooding is surer

Egypt

Viva dullness

FROM OUR CAIRO CORRESPONDENT

President Mubarak of Egypt is chasing the title of most democratic ruler in the Arab world (not much of a contest there). And he is still trying to put Egypt back at the helm of Middle East affairs, this time by offering to mediate in the Gulf war. Both aims should be treated with respect—and a wry smile.

At the first session of his new parliament after last month's freer-than-usual election, Mr Mubarak humbly promised to resign the presidency after two terms. That is, in 1993. He also managed to persuade the leader of the left-wing Socialist Labour party, which failed to reach the 8% of the total vote needed to qualify for representation in parliament, to accept four seats as a gift from the president. One member of the far-left Progressive party has also accepted a nominated seat, against the wishes of the party. So, with the right-wing New Wafd party winning 58 seats in the 448-member parliament, Egypt has the makings of a vocal legal opposition on both right and left.

The Wafd, still tetchy at what it claims was large-scale intimidation and rigging in last month's election, has already turned its eyes towards the next one, in 1989. Wafd party committees are springing up across the country. The next election, say Wafdist officials, will be the real test of Mr Mubarak's commitment to a genuine democracy.

Many Egyptians wonder, however, if anything has really changed. The ruling party has a bigger chunk of parliament than it did after the more controlled election in 1979, when Mr Sadat was president. So long as remittances from Egyptians working abroad and subsidised food and fuels give ordinary people enough to keep body and soul together, Mr Mubarak can probably survive by dishing out more of the same. The only visible change, and that fairly small, is in foreign policy.

President Mubarak's foreign policy statements have been getting a more favourable press in the Arab world than could have been imagined two years ago, insubstantial though many of them are. Last week's offer to help solve the Iran-Iraq war was politely noticed, but has no bigger chance of success than previous gallant offers by the United Nations, the Islamic Conference Organisation, Mr Yasser Arafat and Mrs Gandhi. Egypt under Mr Mubarak has also been trying to distance itself a little from the Americans, but not much. It has become frostier in its dealings with Israel, even though it



And I'll quit in 1993

is solidly wedded to the Camp David peace settlement.

It is mainly a matter of style, both at home and abroad. That, indeed, is the main difference between Mr Mubarak and Mr Sadat, who was assassinated two and a half years ago. "A different sign over the same shop," as a Russian commentator said. Sadat's policies remain largely intact: free-ish trade, peace with Israel, close relations with and economic dependence on America. But the change of presentation is striking.

Where Sadat was flamboyant and unpredictable, Mr Mubarak is cautious and—it has to be said—awfully dull. Sadat was an army officer who, by instinct, turned himself into a clever politician. Mr Mubarak, the former head of the air force, retains his military approach: he is good in an emergency and at holding the fort, but short on new ideas. Sadat was both loved and hated by Egyptians during his 11 years in power. Mr Mubarak is neither. Egypt's political jokesters, always busy during the regimes of Nasser and Sadat, seem to have exhausted the gibes about Mr Mubarak's political inactivity.

Humility is not a bad quality in Egyptian presidents, and a rare one. Many of Sadat's compatriots thought that his head was turned by the adulation of the west after his visit to Israel in 1977. He seemed to lose his grip on what was happening at home. Mr Mubarak has done nothing to court western reporters. In contrast to Sadat's pride in being listed among the world's 10 best-dressed men—and the whiff of corruption around him—Mr Mubarak lives in the modest house he had as vice-president. In good Islamic fashion,

his wife stays out of the limelight.

Just before his death, Sadat said on television that he had the feel of the people's pulse. More sensibly, Mr Mubarak trusts his advisers to tell him the latest public whispers. During last month's election the opposition complained that he was campaigning too openly for the ruling party, so he obligingly cancelled a series of appearances. He has given the press a longer leash to criticise the government.

Mr Mubarak takes advice, too, about his safety—unlike the devil-may-care Sadat. On the day of the military parade where he was gunned down, Sadat was warned by the interior minister and by the head of presidential security not to attend. He even spurned a bullet-proof waistcoat. Though Cairo is less taut now than it was then, Mr Mubarak is cocooned in security and sticks mainly to his Cairo suburb. On he plods, changing Egypt in substance not very much. But style does count.

Lebanon

Peace by committee?

Is it just another bit of Lebanese paper that will soon look tatty, or could the agreement by Mr Rashid Karami's two-month-old government to reorganise the Lebanese army actually produce something tangible—such as a spot of peace? For those who refuse to write off Lebanon, the omens now look better than before. This is because the Christian

members of the cabinet have agreed to sack one of their own—the army commander, General Ibrahim Tannous, who was closely identified with the Maronite Christian Phalange party and its militia, the Lebanese Forces.

In theory, the new commander—also a Maronite—has to share power with a military committee that includes a Shia Moslem, a Sunni Moslem and a Druze. The committee will control the army budget and all promotions above the rank of captain. The chief of staff remains a Druze, but he now has more muscle because he can refer any dispute with the army commander to the committee. The directors of military intelligence and internal security continue to be Maronite Christians, but the former must restrict his snooping to military matters only. A Shia policeman will run a new intelligence bureau for state security.

The re-jigged command's next huge task is to implement a grand security plan. A few hundred Christian soldiers are to be drafted into the all-Moslem army brigade that defected in February and now controls much of west Beirut, the city's mainly Moslem part. In turn, some Moslems and Druzes are to be inducted into the Christian brigades in mainly Christian east Beirut. Then the barricades dividing the city are supposed to come down. The national army should start gathering in heavy weapons belonging to the sectarian militias. The port and airport should open.

Too good to be true? Maybe. The new commander, General Michel Aoun, is almost as hardline a Maronite as his predecessor. Command-by-committee is not the easiest way of running an army, especially when the committeemen are like chalk and cheese. Worst of all, the Phalange militia, though it has not yet rejected the agreement outright, will be reluctant—to say the least—to let a part-Moslem national army take over its hallowed east Beirut.

The chief argument for optimism is that the founder of the Phalange, Mr Pierre Gemayel, father of the president and a member of the cabinet, has blessed the plan. If he really insists on its implementation, and if his militiamen defy his authority, the Phalange could split. So could the Maronite community as a whole. Up to now the gunmen have invariably carried the day. The more the Christians have felt cornered, the more they have tended to fall back into the arms of their militias.

If the Phalangist forces try to snarl up the new dispensation, the Syrian army could come down from the hills above the city to enforce it. And the Shia and Druze militias, which have been rearmed in the past few months, may be tempted to have

KP 3111

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another bash at the Phalangist militiamen, to force them into the new system. Neither would relish the thought of taking on the Maronites in their heartland, but it cannot be ruled out. Plus ça change.

Libya and Britain

Six for six?

The taking of hostages, Colonel Qaddafi of Libya might paraphrase Clausewitz, is the continuation of politics by other means. Since the murder of a policewoman by a gunman in the Libyan embassy in London on April 17th, six Britons have been taken into detention in Libya. Colonel Qaddafi's aim may be to keep them there until six Libyans awaiting trial in Britain on charges stemming from bombings in Manchester and London last March are released.

On June 25th a British diplomat was allowed to speak to five of the six Britons, none of whom has been charged with any offence, and only two of whom have been publicly identified: British Caledonian's airport manager in Tripoli and an oil-company employee. Until then no contact had been allowed with any of the six since they were arrested over a 30-day period beginning on April 18th. The diplomat who saw them said they were fit, allowed access to doctors and bored.

By denying diplomatic access to the six Britons until this week, Colonel Qaddafi is flouting the 1961 Vienna convention on diplomatic relations, signed by Libya, Britain and 139 other nations. That is not difficult, it seems. Countries like Libya can flout diplomatic conventions when they know that doing so is unlikely to lead to retaliation. Britain chose not to violate the sanctity of Libya's embassy, even though it contained the policewoman's murderer (and even though it has subsequently been argued that Britain could legally have entered the embassy). It also failed to detain the apparent killer when the Libyans flew away on April 27th.

Nobody seems to have any clear idea of what law-abiding countries can do in these circumstances. The 21 European ministers of justice, meeting in Madrid last month, blandly agreed that the problem did, indeed, need looking at. At this month's summit of the seven major non-communist nations in London, proposals for getting tough were said to have "found support". That, at least publicly, is as much as has been accomplished.

There is, it is often said, no way of deterring governments which care neither for world opinion nor, in the unlikely event of retaliation, for the safety of their own citizens abroad. The only sure way a country can prevent its nationals from

Beggars can be bruisers

Robin Hood might have been Chinese. For centuries Chinese have enjoyed stories about brigands who stole from the rich and gave to the poor. They duly admired local worthies who built schools and temples and memorial arches to virtuous widows. Communism is, of course, meant to be Robin Hood-ism on a grand scale. But now China's Communist party has decreed that charity can be "negative" behaviour.

It turns out that the well-off peasants who have recently been acclaimed as heroes for helping their neighbours were actually victims of political extortion by Maoist diehards. According to the People's Daily, rural officials have been compelling rich peasants to "show fine style" by erecting local cultural centres,

sponsoring entertainments and even paying for other people's weddings and funerals. A glowing report of rich peasants paying off a £7,000 loan for an entire village was cited by the party newspaper as an example of officials "seeing red" whenever they spot successful farmers.

Some of the people who have prospered under China's new entrepreneurial system are genuinely public spirited. But, says the People's Daily, publicising such generosity only puts others under pressure and provides officials with "a lever for making forcible impositions". The right way of exhibiting fine style is by getting on with creating the surpluses which made for a record harvest last year. In the new China, "getting rich is better than charitable acts".

being taken hostage by another country (other than sending in the marines) is to forbid them to go there. Or, failing that, to tell them that they go at their own risk. Not quite what the visionaries of international order once envisioned.

Hongkong

A muffled voice

FROM OUR HONGKONG CORRESPONDENT

Britain and China have both promised to listen to the people of Hongkong in drafting their agreement about the territory's future. If anybody can claim to speak for Hongkong, it is the feisty Sir S. Y. Chung and his 40 fellow "unofficials"—community leaders appointed to sit on the governor's executive and legislative councils. Last month Sir S. Y. led a delegation to London to talk about Hongkong's worries. The nine-member group came away with lots of sympathy but no commitments to a wish-list the British consider unrealistic. Last week he went on a similar mission to Peking, only to get a diplomatic pie in the face.

Sir S. Y. provoked titters from local journalists when he told a press conference in Hongkong on June 25th about Mr Deng Xiaoping's notion of how Hongkong could set a precedent for resolving world problems such as the reunification of the Koreans and the Germanies. "One country—two systems" is China's cover concept for absorbing a capitalist enclave into a communist state, as China intends to do with Hongkong in 1997. The team confessed that "we do not think we have convinced the Chinese leaders that there is a confidence problem in Hongkong." Their anxieties were dismissed by Mr Deng, who also refused to acknowledge

the three as anything but overseas Chinese on a tour.

Mr Deng confirmed to the Hongkong councillors that China reserves the right to send troops to Hongkong and to make the formal appointment of civil servants, once they had been selected in Hongkong. But, he insisted, China will not send officials from Peking to run the special autonomous region.

The Hongkong delegation extracted two promises from China's chief spokesman on Hongkong, Mr Ji Pengfei: that the agreement with Britain would be "detailed and binding", although "there may be areas where it may not be advisable or feasible to be too specific"; and that the basic law or constitution for Hongkong would reflect the terms of the agreement with Britain. The Hongkong team proposed that the basic law should be drafted by a joint committee of Hongkong and Peking delegates and that the drafting process should be monitored by a committee led by Chinese "of international standing". Peking took note.

As members of Hongkong's executive council, Sir S. Y. Chung and company have been let in on the secrets of the Peking talks in exchange for propping up Britain's wall of silence. Now, rebuffed in Peking and disappointed in London, they are calling on Hongkong people to speak out. Some pressure groups, such as the pro-Taiwan lobby and the pro-Peking union federation have long been doing so. Others are getting into the act and presenting their own model constitutions.

A common thread in the many manifestoes and drafts is the proposal that Hongkong people should be responsible for drafting their own laws with China acting as adviser. The proposers are likely to be disappointed. China's idea seems to be that Communist bureaucrats should draft

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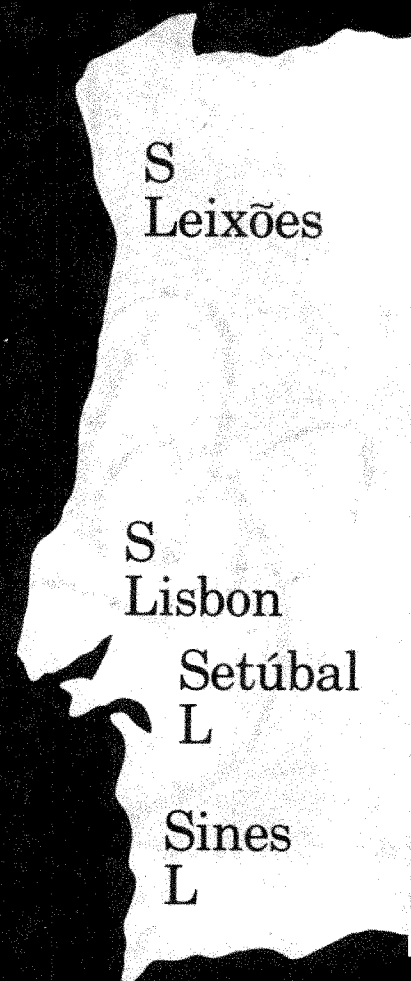
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kong people should be responsible for drafting their own laws with China acting as adviser. The proposers are likely to be disappointed. China's idea seems to be that Communist bureaucrats should draft the new law, taking advice from chosen Hongkong "compatriots".

Hongkong has 13 years to create a "democracy accompli" capable of resisting left-wing pressure from across the border. To that end the Hongkong government will publish a green paper next month. It is expected to set out plans for an indirect democracy, whereby the current elected district boards would choose members of the legislative council which in turn would elect the executive council. Whether this will put Hongkong hearts at ease remains to be seen.

It is clear that Britain and China are now bent on meeting China's September deadline for an agreement, though final approval will take longer. Committees of civil servants are beavering away at the details day by day while the talks on high principle proceed in more leisurely fashion. Hongkong is now more sharply aware than ever of its exclusion from this process and of the hollowness of the promises to test the agreement's "acceptability" in Hongkong once the draft is agreed.

The leading citizens who have been serving as appointed "unofficials" are also increasingly resentful of what they see as Whitehall's notion that their job is to boost local confidence rather than to express local fears. "It is easy to do nothing", explained an outspoken legislative councillor, Mrs Selina Chow. "Then the British and the Chinese will love you. What annoys me is to be told to go home and make the situation look more optimistic than it really is. You've got to allow people to face up to the truth."

New Zealand

Before the wave breaks

FROM OUR NEW ZEALAND CORRESPONDENT

New Zealand's prime minister, Sir Robert Muldoon, has laid his political life on the line by calling a snap election for July 14th. An opinion poll shows his National party running behind the Labour opposition by 39% to 46%. Sir Robert has a knack of escaping from awkward corners; but if he has got his calculation wrong this time, and the National party loses the power he won for it in 1975, he will face quick retribution.

The prime minister said he was calling the election because he could no longer count on a majority in parliament (where,

since 1981, his party has had a majority of only one or two). On June 13th two National members voted with the opposition for a Labour member's bill aimed at making New Zealand a nuclear-free zone. The bill was defeated, by one vote, because two former Labour members who now sit as independents voted with the government. But one of the two National dissidents, Miss Marilyn Waring, then announced that she would not attend future meetings of the party caucus, although she said she would vote with the government on most issues.

In fact, Sir Robert's decision to go to the country may have other reasons. He hopes to win votes for his tough handling of the long and sometimes violent labour dispute at the Marsden Point oil refinery extension (where special legislation forced the strikers to resume construction work on June 13th). He is worried that the economy will get worse between now and November, when the election was originally due.

Businesses have begun hedging against a possible devaluation, either by an incoming Labour government or by Sir Robert himself, because of a rapidly worsening balance of payments. After a run on the dollar, the reserve bank offered insurance against devaluation, at a premium of 20% of the contracted amount per year.

The prime minister faces a rising inflation rate, and his long battle to bring interest rates down seems in danger of ending in failure. He has thus chosen an election date when he can put a reasonably good face on his economic management. He is inviting voters to choose between his own long experience as a finance minister and the relative economic innocence of the Labour party's 41-year-old leader, Mr David Lange.

Mr Lange offers consultation and consensus in place of Sir Robert's abrasive and divisive style. Mr Bruce Beetham, the leader of the Social Credit party (which has only two seats in parliament), says the main thing is to get Sir Robert out—a radical shift from his former neutrality between the two major parties. And Mr Bob Jones, who last year founded the new far-right New Zealand party, says his party wants a "change of personnel at the top", a phrase Sir Robert Muldoon will have no difficulty understanding.

For several years, New Zealand's politics have presented the odd spectacle of a Labour party calling for less state intervention in economic matters and Sir Robert's National government advocating more. It is not surprising that more voters than usual have been telling pollsters and party canvassers that they do not know which way they will vote.

South Africa

Not cricket

FROM OUR SOUTH AFRICA CORRESPONDENT

Rugby, the game that has done least to break down racial barriers, is now curiously the only major team sport in which South Africa competes internationally. As the English rugby team ended its tour of South Africa earlier this month, Wales announced that it too was prepared to ignore the anti-apartheid sports boycott and tour South Africa next year. Four years ago the French team played in South Africa. Yet South Africa's cricketers, who have made some strides toward integration, and soccer teams which are managed and even owned by blacks, are still ostracised by the rest of the world.

The reason why rugby enjoys a favoured position is simply that all the major rugby-playing nations are white. This means that rugby teams, unlike their cricket and soccer counterparts, risk few reprisals from non-white countries if they play against South Africa. The non-whites can threaten only blunderbuss retaliation—for example, a boycott of the Olympics or the Commonwealth games.

Over the past five years the South African government has stopped enforcing apartheid in sport. Now sports associations can integrate if they want to. If they do not, they can no longer hide behind the apartheid law.

Despite its British origins, rugby has become the national game of the Dutch-descended Afrikaners, whose ruling Nationalist party invented apartheid. The current Springboks XV, which dealt England the heaviest defeat it has ever sustained on a rugby field anywhere, contains only two players from the English-speaking white community.

Rugby is still organised on classic "separate development" lines. Each race has



Odd black player in

its own clubs and leagues, though national and provincial teams can be chosen from all three. That is how two Coloured players, Errol Tobias and Avril Williams, made it into the Western Province and Springbok teams. In the most powerful rugby province, Northern Transvaal, there is not a single non-white member of a predominantly white club.

Cricket is run by the South African Cricket Union, which insists that all clubs be open to all races. A Transvaal club that refused to admit non-white members was expelled from the union. Leagues, provincial and national teams are open to all, though only 10% of the players are non-white. Soccer, by contrast, is predominantly a black game, with the biggest matches played in townships like Soweto. Professional soccer retains a segregationist structure, but the council to which nearly all soccer bodies are affiliated is headed by the same black who runs the professionals.

Much of the resistance to integration in South African sport comes from blacks, Indians and Coloureds (mixed race) who see the changes in sport as white expedients to overcome the country's international isolation. Hence the slogan, "No normal sport in an abnormal society". The professedly non-racial but almost entirely non-white South African Council of Sport (Sacos) argues that South African teams should be boycotted until the non-white majority acquires political power. Through a mixture of persuasion and intimidation from Sacos, most Coloured and Indian cricketers and the few blacks who play the game shun the cricket union and run their own competitions. The state gives them negligible aid.

The trouble with the absolutist view is that it provides no incentive for further integration in sport. Practically all the chipping away of apartheid in sport can be credited to the pressure of the boycott. But if South African sportsmen are to be ostracised as long as white political rule prevails, why should they go on bothering to meet the world's objections? The cricketers and soccer chiefs are understandably miffed at the way soft-on-apartheid rugby can break out of isolation while they continued to be snubbed.

The most fruitful area for anti-apartheid campaigners now seems to be school sport. A few private and church schools enrol a limited number of non-white pupils. But these mixed schools have great difficulty in organising games against state schools which are segregated by law. Only the odd cricket match pits white school against black.

If the stick of boycott is to continue to goad South Africa in the right direction, there may have to be a carrot to help it along. If, for example, the cricket union

manages to persuade the government to allow complete integration in school sport, this could start undermining segregated schooling. How about an English cricket tour of South Africa as a reward?

Mexico

Wading to work

FROM OUR MEXICO CORRESPONDENT

Mexico is where any changes in United States immigration law will have the most immediate impact. Mexican politicians have been angrily denouncing the Simpson-Mazzoli bill, which was passed by the house of representatives last week, as "racist" and a formula for "institutionalised slavery". Some Mexican congressmen see the bill as a heavy-handed attempt to persuade Mexico to modify its Central America policy. But even those who properly reject this interpretation insist that it is "anti-Mexican".

Business leaders, noting that Mexico's unemployed are expected to swell to nearly 3.5m this year, have given warning that the country's depressed economy could not absorb any great influx of workers deported from the United States. The bill, as passed by the house, extends an amnesty to illegal aliens only if they had entered the United States before January 1, 1982; the senate bill, with which the house version has yet to be reconciled, sets less generous terms. But nobody north of the border expects mass deportations or even any great drop in illegal border-crossing.

Still, foreign bankers are worried about potential reductions in the remittances from some 2m Mexicans working in the United States. The central bank reckons that more than \$1 billion was remitted last year. Some bankers think it was nearer \$2 billion, making remittances Mexico's largest foreign exchange earner after oil.

United States diplomats and congressmen have pointed out that Mexico's views on immigration are ambiguous at best and hypocritical at worst. The de la Madrid administration has expressed concern for the "human and labour rights" of Mexican workers abroad. But it has stopped short of proposing an immigration accord to guarantee legal protection and a minimum wage for these migrants lest Mexico be required to assume some responsibility for the flow of its workers to the north.

One reason for Mexico's equivocal stand is that for the first time it has its own immigration problem. Some 150,000 Central Americans are now illegally living and working in Mexico. Thousands more have been summarily deported south of the border. No Mexican politician has called for an amnesty or equiva-

lent legalisation for these undocumented aliens. But then Mexico has no need for cheap foreign labour. Its own labour force is the fastest growing of any large country in the world.

Senator Heladio Ramirez Lopez, who organised Mexico's 5m-strong migrant farmworkers' union, says that 1m of his members regularly seek work across the border. "We are subsidising the United States' economy. . . . Law or no law, these workers will continue going to the United States, and American farmers will continue hiring them." He is right.

Mexican demographers say that the traffic north is smaller than Americans think. One reliable estimate is that



Now whole families are going

650,000-700,000 Mexican workers cross the border every year. Many of the additional 1.1m Mexicans in the United States have been in the country since before 1982 and thus would be eligible for the amnesty. Most of these undocumented residents are expected eventually to apply for United States citizenship. This would be an embarrassment for Mexican leaders who contend that most Mexicans in the United States want to return home.

The status of the nomadic temporary workers from Mexico is much more problematic. They could be turned out of jobs if the proposed federally-enforced employer sanctions prove effective. A programme of temporary visas, yet to be approved by the senate, could offer the best legal solution. But bitter memories of the Americans' unilateral abrogation of the "bracero" quota scheme two decades ago make Mexicans reluctant to go into any deal that would stop would-be wetbacks from finding work up north.

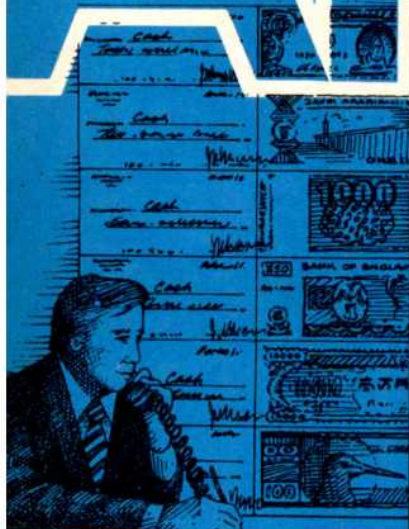
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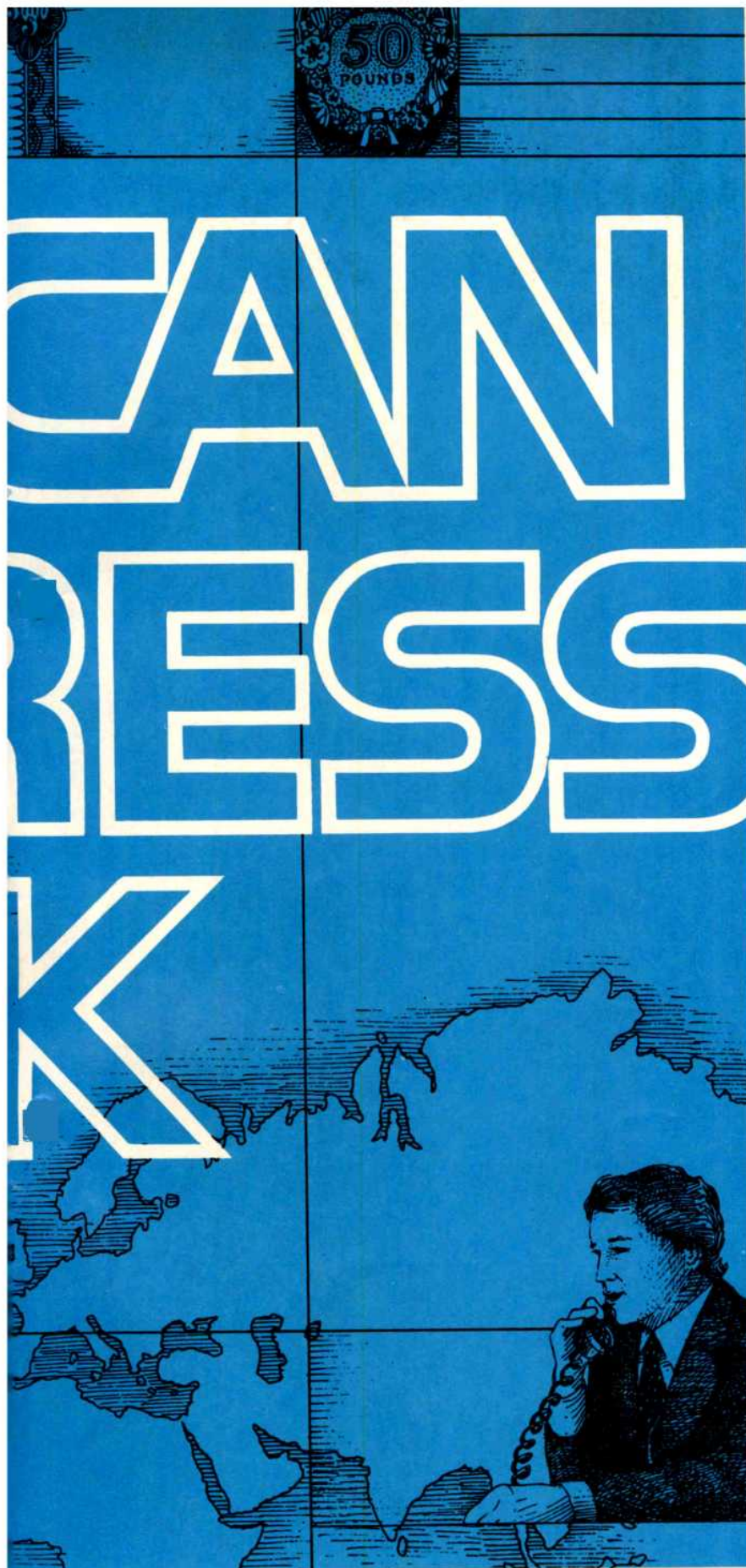
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AMERICAN SURVEY

A down-payment on a down-payment

In its perpetual struggle with the federal government's budget deficit, congress has given President Reagan much of the token "down-payment" which both it and he reckon they need for a smooth passage in November's elections. On June 23rd, a conference of the senate and house of representatives agreed on a bill intended to increase revenues by a total of \$50 billion spread over the three fiscal years 1985-87, beginning with the new fiscal year in October. The agreement by the house-senate conference, led by the Republican Senator Robert Dole of Kansas, chairman of the senate finance committee, and Representative Dan Rostenkowski, a Democrat from Illinois, was expected to be passed by both houses and signed by the president within a few days.

The financial markets, as usual, spoiled the fun. Only two days after congress agreed on a tax bill, banks raised their prime rates by half a percentage point to 13%, the fourth such rise in as many months, to keep abreast of increases in the cost of money caused by strong demand from private borrowers and from the federal government. Mr Reagan complained that there was "no excuse" for a rise in interest rates.

America's tangled budget negotiations have been further complicated this year by political manoeuvres over the deficit. Both Republicans and Democrats are keen to show how much they disapprove of deficits and each side has a plan for restoring fiscal order. Republican leaders in the senate agreed in March on a scheme to raise revenue and reduce targets for spending which might knock a total of \$140 billion over three years off the deficits forecast for 1985-87.

The Democratic majority in the house of representatives tried to upstage the Republicans by announcing that they wanted to cut the deficits forecast for 1985-87 by \$180 billion. The main difference between these two schemes was defence spending. The Democrats wanted to cut \$96 billion from the (highly unreliable) forecasts for defence spending in 1985-87, the Republicans only \$41

billion.

Congress has now made good its pledge of extra revenue and is discussing spending cuts. Some have already been decided. Legislation this year on farm prices and pay for federal government workers has "saved" \$9 billion from spending projected for the next three years. And reductions in spending plans for Medicare and Medicaid, included in negotiations on the tax bill, will lower forecasts of the deficit in 1985-87 by \$11 billion (see box on next page).

Most of the argument about spending cuts now turns on the budget for fiscal 1985. Negotiations in congress take place in a bewildering number of senate and house committees and conferences. They come in two stages: first, agreement is forged on how much different parts of the federal government should be authorised to spend; this is followed by appropriations of the money, which put it in the hands of spending departments.

Defence spending is the most contentious element. The senate and house have said, as part of the regular budget procedure, that they will try to authorise a defence budget of \$299 billion and \$286 billion respectively. Both numbers are likely to be chopped when congress as a whole tries to reach a decision on authorisation, and again when appropriations,

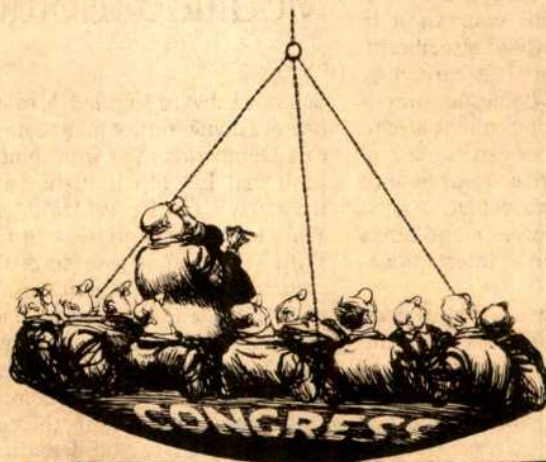
always lower, are finally decided. The administration is aiming for a defence appropriation of \$291 billion for 1985.

The budget billions so freely bandied about in Washington are all guesses, though the figures for this year and next are fairly reliable. The Reagan administration, according to the office of management and budget (OMB), expects a deficit in 1984 of \$170 billion-175 billion, and will publish new estimates for next year and beyond in July. The OMB estimates that this year's revenue increases and spending cuts should narrow the deficit by \$25 billion next year, keeping it below \$200 billion.

Rising interest rates, however, have already upset guesses about the deficit made early this year. Assuming no change in taxes or spending, and a slight fall in interest rates, the congressional budget office (CBO) reckoned in February that the deficit would grow to \$198 billion in 1985, \$217 billion in 1986 and \$245 billion the following year. But if interest rates remain as high as they are now until 1987, the CBO puts the extra cost since early this year of paying for the federal government's debt in 1985-87 at \$57 billion—more than the tax increases for those years finally agreed upon last week.

The administration is hinting that taxes will have to be raised next year, a rise perhaps made more palatable under the label of "tax reform". The treasury is due to report in early December on how to mend the tax system. Further tinkering is unlikely to raise enough revenue next year. Congress reached its figure of \$50 billion only by fiddling with numerous

NEW YORK



'ALL BALANCED AT THIS END, MR. PRESIDENT. HOW'S EVERYTHING AT YOUR END?'

Doctors get their medicine

The rather modest spending cuts that the committees of the senate and the house of representatives have agreed on so far include a cut of \$11 billion in the cost of health care, principally the Medicare programme. This is not surprising since Medicare is costing over \$60 billion in the present financial year and, it is estimated, is growing so fast that it will cost nearly \$100 billion in three years and will threaten to bankrupt the trust fund that finances it.

The 26m elderly and the 3m disabled who receive largely free hospital care and subsidised medical care are to bear part of the burden. The monthly premium that they pay to the Medicare programme for outpatient care and attention in doctors' surgeries is to rise from \$17 to \$21 over three years.

What is new, and controversial, is that sacrifices are to be demanded from the doctors who treat Medicare patients, probably over three quarters of those in practice. If the senate and the house accept the decision of their conference committee, fees paid to these doctors will be frozen from July 1st to September 30, 1985. Doctors who raise their charges will be fined some unspecified sum.

Under the present system Medicare lays down a schedule of fees for various treatments. It pays doctors 80% of these fees. Some doctors accept this as payment in full, but the majority charge the patient more and leave him to seek the 80% reimbursement from Medicare. For example, a doctor might charge \$100 for treatment that Medicare thought worth \$75; the patient could receive only \$60

reimbursement from Medicare. The intention now is to penalise these doctors when the freeze ends and Medicare fees are allowed to rise. They would not be allowed to share in these increases.

According to the doctors, this is close to mandatory assignment—forcing doctors to accept Medicare reimbursement as payment in full—which they managed to defeat in both the senate and the house. The doctors' political power should not be underestimated. They contributed \$2m to candidates running for the senate and house in 1982.

In the view of Mr Dan Rostenkowski, the chairman of the house ways and means committee, however, it is time for the doctors to make a contribution, now that the elderly and the hospitals have been forced to assume new burdens. The administration agrees, even though it is ideologically opposed to price controls which, it admits, are what is being proposed.

The medical societies, which have already asked their members for a voluntary freeze on fees, and expect nearly three quarters of them to co-operate, are not so philosophical. There is talk of "enslavement" of doctors and of socialised medicine. There are threats that many doctors will refuse to treat Medicare patients. These threats are less frightening than they might once have been. The doctors, whose princely incomes used to inspire envy as well as admiration, are feeling the cold wind of competition from walk-in clinics, hospital emergency rooms and the present surplus of other doctors.

exemptions and indirect taxes.

Wall Street did best from the tax bill. As part of the bargaining over how to raise revenue, some taxes were cut, including capital gains taxes. Congressmen decided to reduce from one year to six months the minimum period investors must hold securities to qualify for a lower rate on capital gains, though they felt guilty enough about this concession to end it in 1987. The bill would also abolish the 30% tax paid on interest earned by foreign investors from domestic American securities. This will raise the return to foreign investors on American bonds and make it easier for the treasury to finance the federal government's deficit. And it could give Wall Street investment banks an edge over their international competitors.

The bill also overturns an earlier decision by congress to waive tax on some interest earnings from 1985. This exemption was intended to offset tax breaks on interest Americans pay, which encourage borrowing and penalise savers. But the revenue of \$7 billion saved in 1985-87 by

reversing this modest attempt to correct the bias in the American tax system against savers proved too tempting. An unsettling precedent for next year's tax "reform"?

Democrats

Modified rupture

WASHINGTON, DC

Senator Edward Kennedy's role has often been to divide rather than to unite America's Democrats. Yet from him came the push that has repaired the rift between the party's chief presidential rivals, Mr Walter Mondale and Senator Gary Hart. With Mr Mondale assured of the Democratic presidential nomination, Mr Kennedy managed this week to coax the two foes into burying the hatchet with which they have been hacking at each other since February. With luck, and the Rev. Jesse Jackson permitting, the new harmony will eliminate self-defeating discord from the Democrats' mid-July convention



Kennedy cheer in Mondale's ear

in San Francisco; and it should enable the party to give President Reagan a better run for his money in November than has sometimes seemed likely.

The Mondale-Hart arrangement is tactical blessing for both men. Mr Mondale is liberated from the threat of somehow being made to look like a cheat at the convention. That threat has disappeared with Mr Hart's agreement not to challenge the way he accumulated almost a third of the delegates who have given him his numerical hold on the nomination. Long after the primaries ended in a last wave of bitterness on June 5th, Mr Hart had stuck to his charge that dubious electoral financing had helped elect 600 or so pro-Mondale delegates, who were thus "tainted".

The charge bothered Mr Mondale, who cares about his reputation as a man of spotless morals. As nominee-to-be he also cares about the face his party presents to the squadrons of television cameras which will take the convention into the American living-room. Ugly brawls would not help the nation's digestion. What the pact does, in the candid word of a Mondale aide, is to make sure the convention floor is "clear to do what we want on TV".

Abandoning the delegate challenge amounts to surrender by Mr Hart, though he still maintains, unpersuasively, that he hopes to win the nomination. What he gets in return amounts to little in the short run. As part of the deal with Mr Mondale he can expect changes in Democratic election rules for the 1988 presidential race which will dismantle some of the restrictions he, as an outsider, faced this time. There would, for example, be far fewer "superdelegates" (party bigwigs and elected officials) of the kind Mr Mondale was able to enlist for his victory without having to fight for their allegiance in primaries. Further, the threshold of 20% of the vote which Democratic candidates were required to reach in most primaries this year to qualify for any

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Abridged results – year ended 31 March 1984

	£m	
Gross Assets	474	(377)
Net Worth (per share 235p (206p))	245	(214)
Profits pre-tax	9.02	(7.71)
after tax	8.44	(6.95)
Total Dividends	8%	(5%)

Gross assets increased by £97 million (26%)
... Net worth increased by £31 million (14%) at
235p per share ... after tax profits increased by
£1.49 million (21%) at 8.1p per share ... Total
dividend increased by 60%.

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"Demand for office space in the City suggests that the Group's major investments in large multi-tenanted buildings there are well placed to benefit."

"The industrial and other activities provide an ancillary flow of income, with good prospects and with a high return on capital employed"

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	Half Year to 30th April 1984 £m	Half Year to 30th April 1983 £m	% Change	Year to 31st October 1983 £m
Sales	503.3	440.2	14	1012.0
Trading Profit				
Hotels	27.7	21.0	32	73.0
Catering and other	6.4	3.5	83	16.9
Property Disposals	9.6	10.6	(9)	12.8
	43.7	35.1	25	102.7
Interest	(10.0)	(11.4)		(20.6)
Profit before Taxation	33.7	23.7	42	82.1
Profit (after taxation and minority interest)	23.0	18.7	23	62.0

The above figures are unaudited and accounting policies are as stated in the last annual accounts.
The greater part of the year's profit is always produced in the second half of the financial year.

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Summary of Results		
	1983	1982
	£000	£000
Turnover	1,765,966	1,697,371
Profit before tax	53,017	50,341
Profit after tax	15,979	16,691
Earnings per share	13.2p	12.1p
Dividends	18.15p	18.15p

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delegates would be cut to 15% in future. Mr Jackson too can feel gratified by such commitments, though he must swallow his disappointment at not getting any of the extra convention delegates he has demanded to reflect more fairly his vote-getting performance in the primaries.

The real benefit the pact brings to Mr Hart should be an improvement of his less-than-brilliant standing within the party. His closest supporters believe he should now get the vice-presidential nomination, though this is apparently not part of the deal which Mr Mondale and Mr Hart confirmed over breakfast in New York on Tuesday. If Mr Reagan wins re-election, Mr Hart can reasonably calculate that his decision to subordinate personal ambition to party unity at this stage will make him a leading Democratic contender for the White House in 1988.

It was ironic, in that light, that Senator Kennedy should have engineered the deal. The Massachusetts senator, still the prince of American liberals despite his many enemies, took himself out of the 1984 race early but can certainly not be ruled out as a candidate in 1988. Perhaps he is tormented by the destructive effect his 1980 challenge had on President Carter, when he kept up his onslaught against then-Vice-President Mondale's boss to a point where unity, when thinly devised at last, was a joke. So if anybody knows what discord can do to the Democrats it is Mr Kennedy, whose distaste for President Reagan is strong.

Having decided to drop his neutrality and endorse Mr Mondale, Mr Kennedy telephoned Mr Hart to inform him of his plans. That was three days before Mr Kennedy was due to fly to Minneapolis, Mr Mondale's home, to anoint the nominee-designate. Mr Kennedy and Mr Hart are not intimate friends but they sit next each other in the senate and work well together. The Coloradan's respect for the Kennedys is well known (his efforts to cast himself as a new John Kennedy, mannerisms and all, have been a mark of the campaign). Mr Kennedy got the idea therefore that he was in a unique position to do his bit for unity. Information from his advisers, who had been in contact with Hart people, persuaded him that he knew what Mr Hart would settle for. On arriving at Mr Mondale's home over the weekend, he quickly secured the former vice-president's agreement and put the rivals on the telephone together.

At their subsequent meeting in New York on Tuesday, their first since the primary battles ended, they declared amid much coy shifting of feet that they were friends without real differences. It was all "Fritz" and "Gary" instead of the cold epithets with which they had been stabbing each other for months. In any

case, they said, their "profound fear of a second Reagan term" was enough to unite them.

A puzzle remains: the attitude of the third candidate, Mr Jackson. His tearaway campaign, when not being pursued abroad (see below), juggles bewilderingly with promises of war and peace at the San Francisco convention. This may be because his effervescent radicalism is not reflected in the 1984 Democratic platform drafted for the convention's approval by a committee efficiently run by Representative Geraldine Ferraro of New York (her guile in getting this impossible task done has reinforced talk about her ending up as Mr Mondale's running-mate).

The platform, setting the course for Mr Mondale's challenge to Mr Reagan, looks like a more conservative programme than the Democrats have adopted for a long time. Mr Mondale's characteristic sense of caution permeates it. The Ferraro panel made a tactical decision to concentrate more on broad themes than in the past, avoiding a laundry list of specific proposals which the Reagan campaign could put a price on and use to denounce the Democrats as reckless spenders. Embracing a fair amount of Mr Hart's language, the platform recognises the limits on revenue that can be used for social spending and the need for a strong defence. The proposals include:

- A nuclear freeze and the abandonment of the MX missile and B-1 bomber.
- Defence spending to increase, but at a slower rate than that proposed by Mr Reagan (Mr Jackson's call for a real spending cut was defeated).
- Annual summit meetings with the Russians from next year.
- Economic policies aimed at sharply reducing the federal budget deficit, partly

by restoring tax revenues from companies and top earners.

● Continuing industrial competition without government assistance, except where foreign competition is "unfair". In deference to Mr Hart, this point avoids support for blatantly protectionist measures like the "domestic content" bill with which American unions are seeking to protect the home car industry.

● A return to strict enforcement of civil-rights laws which the Reagan administration has put in question.

None of this turns the uninviting terrain which Mr Mondale now faces into the electoral promised land. Mr Reagan, according to his own campaign staff, is 15% ahead of Mr Mondale in their private polls—a lead that on election day would give the president as big a victory as he won over President Carter in 1980.

As if supporting this partisan claim, a poll in the Detroit News shows Mr Reagan doing so well in industrial Michigan, a bastion of trade unionism, that he even leads Mr Mondale 50-49% among union members. At this stage the best Mr Mondale can do is to talk like Truman. He has taken to citing President Truman's extraordinary upset in 1948 over Thomas Dewey, the runaway Republican favourite. "That's exactly what I'm going to do in 1984", he says. His optimism has more chance of infecting the party now that the Democrats appear to be a tidier bunch.

Cuba and Central America

Campaign-free zone?

WASHINGTON, DC

What more fitting climax to the Rev. Jesse Jackson's inventive parade across America's political stage than a meeting in Havana's Palace of the Revolution with one of his country's arch-enemies, Mr Fidel Castro? It has been a disconcerting show for the Reagan administration, which is having trouble getting its way in Central America and the Caribbean. Mr Jackson's ultimate display of derring-do in his presidential campaign has coincided with congress's refusal to pay for the operations of the rebels who are battling another famous enemy of the United States in the region, Nicaragua's Sandinist government.

In truth, Mr Jackson cannot be said to have changed the Central American scene at all during his travels. He wanted to make a start at restoring the United States' ties with Cuba, which Mr Reagan accuses of fomenting revolution in Central America. President Castro, delighted to share any public relations rewards with



Broad planks in Ferraro's platform

AMERICAN SURVEY

his safari-suited visitor, gave him a score of American prisoners who had mostly been locked up in Cuba for drug offences. This haul will not score as many points back home for Mr Jackson as did his New Year exploit in extracting an American airman from Syria. Mr Castro refused to hand over on the spot any of the Cuban political prisoners his visitor wanted. Mr Jackson subsequently claimed in Nicaragua, however, that Mr Castro had acquiesced to his request to free 26 political prisoners. This, if true, would be something of a coup.

The Jackson trip to Cuba this week—sandwiched between visits to Panama, El Salvador and Nicaragua—grew out of the candidate's campaign talk about transforming Central America into a "war-free zone". Failure to resolve promptly the conflicts in El Salvador and Nicaragua could, he fears, land the United States in a crisis reminiscent of Vietnam. Thus his constant condemnations during his travels of Mr Reagan's military involvement in the region. The state department gamely regarded the Jackson trip as well intentioned, but it was clear that the intrusion of a third party—with his own foreign policy, airliner, and news battalions—disturbed the diplomats responsible for implementing Mr Reagan's views.

As it happened, Mr Jackson's characteristically showy odyssey had some related news competition with the clandestine arrival in Washington of the Salvadorean right-winger, Mr Alberto d'Aubuisson, who has been linked to the death squads in his country. About the only political figure who seemed keen to see him was North Carolina's arch-conservative Senator Jesse Helms, who thinks he is the right anti-communist stuff for Central America. Administration officials, who back Mr

d'Aubuisson's moderate opponent, President José Napoleon Duarte, worried that Mr Jackson's and Mr d'Aubuisson's travel arrangements could create confused impressions in Central America over what the United States is really up to.

More unsettling for the administration was congress's disavowal of the Nicaraguan rebels, the "contras". The Democrat-controlled house of representatives has twice rejected Mr Reagan's request for \$21m in emergency aid to the contras this year. But the administration had banked on the Republican-run senate to ensure provision of the money, which is channelled through the CIA. On Monday, the senate voted 88-1 against providing the money (the lone dissenter was Mrs Paula Hawkins of Florida). This extraordinary margin was no true reflection of senate sentiment: many members sympathise with what the administration portrays as the contras' crusade against communist expansionism. But the money was locked into a broad spending bill containing much larger sums for summer youth jobs and other popular programmes which senators could trifle with at their electoral peril. Convinced that the house would never accept aid for the contras as part of this package, the senators decided to excise it.

That does not necessarily mean the end of help for the contras, though leading Democrats and even some strongly anti-Sandinist Republicans believed it might. The White House seems determined to have another go in due course at securing the money by trying a different approach with congress. Moreover, it is doubtful whether the contras' low finances will force them to disband before congress looks, in October, at their claim to run-of-the-mill "covert" aid for next year.

Still, the administration has not made a very powerful case for continuation of the aid to the contras. Part of its argument rests upon the contention that Nicaragua's Sandinists are providing the revolutionaries fighting Mr Duarte in neighbouring El Salvador with weapons. A recent CIA briefing to members of congress behind closed doors apparently proved thoroughly unimpressive; the most telling evidence was colour slides of pack mules and dugout canoes, said to be carrying arms. The administration's case has been further undercut by a former CIA analyst, Mr David MacMichael, who says there has been no verified report of arms transfers for three years. The administration, he said, has been misrepresenting Nicaraguan involvement in the transfer of arms to justify its efforts to overthrow the Sandinists. Mr MacMichael may have his own reasons for saying this, but congress seems to find some merit in his argument anyway.

America and China

Dunfission?

WASHINGTON, DC

Something has gone decidedly wrong with the nuclear co-operation agreement President Reagan plucked triumphantly from his hat during his visit to China in April. If it is to become law this year, the text initialled in Peking by Mr Reagan and Mr Zhao Ziyang, China's prime minister, should by now have been sent to congress for the required 60 days of scrutiny. Yet the agreement is still firmly under lock and key. State department officials say it will remain there while the administration finds out from China whether it really means to keep its promise not to help third countries acquire nuclear weapons.

The administration's conduct has baffled congress. China's doubtful record on non-proliferation has always been the main obstacle to a nuclear agreement with the United States. Like France, another nuclear latecomer, China refuses to ratify the non-proliferation treaty, which calls on the nuclear haves to keep nuclear technology out of the hands of the have-nots unless they forswear nuclear weapons. But France, at least, has agreed to abide by the principles of the treaty; China has not. Given the persistent rumours that China has abetted Pakistan's clandestine weapons programme, congressional experts assumed until recently that Mr Reagan had initialled the new agreement only after wringing some firm non-proliferation guarantees out of his Chinese hosts.

That assumption is rapidly evaporat-



And then this Jackson has the nerve to ask me for a cigar

ing. The agreement almost certainly prohibits China from using American nuclear technology for military purposes, but that provision, in the case of an established nuclear power that tested its first bomb 20 years ago, is almost beside the point. What worries congress is the growing impression that Mr Reagan's party was so eager to close the deal while the president was still in Peking that it squandered an historic opportunity to nudge China firmly into the non-proliferation camp. The administration, it appears, decided to settle for Mr Zhao's oral commitment, during a White House banquet in January, that China would not help other countries develop nuclear weapons.

State department officials refuse to say why they have had second thoughts. There is no doubt that the agreement would have been given a rough reception in congress by an alliance of hawkish anti-communists and fervent non-proliferators. But congress, stripped last year of its authority to veto an agreement by concurrent resolution, could have blocked it only by mustering enough votes to pass legislation and then overriding a presidential veto with a two-thirds vote—an unlikely event.

A more probable explanation is that the administration came to realise that the evidence of nuclear collusion between China and Pakistan was too strong to be ignored, or that it was important for political reasons to avoid a noisy congressional confrontation on the issue just before the presidential election in November. Either way, the delay is black news for America's beleaguered nuclear-power industry. Bereft of orders for new reactors at home, American manufacturers were banking on capturing most of China's \$20 billion market for nuclear power. One company, Westinghouse, had already talked the Chinese into setting up a joint-venture company to design and build the new plants.

The Chinese government, however, is furious at what it sees as America's attempt to renegotiate an agreement that has already been signed. Even if the agreement survives, America stands to lose orders to competitors which take a less high-minded view of non-proliferation.

Aid and abortion

Leave it to Malthus

Population growth was good for the United States in the frontier days, so it should be good for developing countries today. If things haven't worked out that way, it is



Go forth and multiply

because too much government ("economic statism") has made for too many babies ("localised crises of population growth"). Since economic growth is nature's contraceptive, the answer to overpopulation is to let free-market economics rip.

This is the sophisticated argument against birth control in general and abortion in particular which the Reagan administration will present to the International Conference on Population in Mexico City in August. It will accompany, and attempt to justify, a radical change in American population policy that could cut \$100m from the budgets of international family planning programmes.

The Americans propose to tell family planners from such places as India (population 700m, set to double in 50 years), Bangladesh (population 90m, set to triple in 50 years) and Nigeria (population 85m, set to quadruple in 50 years) that the United States intends to withhold all aid for family planning "to governments or private organisations that advocate abortion as an instrument of population control". In the next sentence, the American draft statement explains that efforts to lower population growth must "respect the religious beliefs and culture of each society". For "each society" read "the White House".

A position paper for the conference, on National Security Council stationery, is circulating samizdat-style in Washington, along with reports that the delegation to Mexico will be headed by a prominent anti-abortionist, the former senator, Mr James Buckley. The abortion ban is said to have been engineered by Mr James Baker, Mr Reagan's chief of staff, whose job it is to note such details as the timing of the population conference: a week before the Republican convention.

The United States is already prevented by a 1974 law from aiding abortion programmes directly. But the anti-abortion lobby, which tends to become hyperactive in presidential election years, points out that American aid can free other money for financing abortion. So the ban, the anti-abortionists say, must be total. Among the agencies which would lose American money under the new dispensation are the United Nations Fund for Population Activities and the International Planned Parenthood Federation.

The state department and America's aid-giving Agency for International Development have both denounced the proposed restrictions. So have some leading Republican members of congress. But congress does not have to approve the change, which can be set in motion by a stroke of the presidential pen.

Space shuttle

What sense of Discovery?

WASHINGTON, DC

America's brand-new shuttle, *Discovery*, remained obstinately earthbound this week despite successive attempts to send it aloft for seven days of headline-grabbing space spectacles. On Monday a reserve computer failed eight minutes before take-off. Engineers worked through the night to install a replacement, only to witness an even more spectacular disaster on Tuesday. The mission was aborted with four seconds to go after a valve in one of the spacecraft's main engines jammed shut.

The technical failures at Cape Canaveral will have political consequences in Washington. Although the problems are thought to be minor and lift-off may take place in 10-14 days, the engineers at Nasa (the national aeronautics and space administration) cannot fix an exact date for a third attempt until they understand exactly what went wrong. So this year's timetable of launches could be pushed back weeks or even months. And that, inevitably, will swell the ranks of those who doubt whether the shuttle deserves its official status as America's primary space vehicle.

The band of sceptics is led, oddly enough, by the Pentagon, which is also supposed to become the shuttle's biggest single customer. Nasa developed the shuttle on the understanding that the air force would give up its own venerable throw-away rockets and use the shuttle to park its spy satellites and other military bits and pieces in space. The defence department has certainly been intimately

AMERICAN SURVEY

involved in the shuttle; it is paying for the west-coast launch site, Vandenberg air force base in California, and it is responsible for the inertial upper stage, the rocket that takes cargoes from the shuttle into higher orbits or into deep space. Until recently, Nasa confidently expected the Pentagon to claim at least one out of three shuttle flights.

Yet all that may change. Having grumbled for years about being made to surrender its own toehold in space, the air force now says the shuttle fleet is too small, too expensive and too unreliable to meet the nation's military requirements. Far from phasing out its rockets, the air force has begun to lobby for permission to build a new generation of bigger and better ones. Simple expendables, it believes, can do the job more cheaply than the temperamental shuttle.

That may be so. Although President Nixon launched the shuttle programme in 1972 on the assumption that a reusable

spacecraft would be cheaper than an expendable one, it has not worked out that way. (At least not for simple satellite launches; it may be a different story for, eg, drug production in space, with which *Discovery* was due to experiment.) One difficulty has been that development cost a lot more than expected. Nasa cut corners by building a shuttle that is not fully reusable; its external fuel tank breaks up in the atmosphere when it is jettisoned, and the solid rocket boosters parachuted into the ocean can be reused only after expensive repairs. Even so, development costs were 30% over budget and flights started more than two years late.

An even bigger disappointment is Nasa's failure to launch enough flights. The complexity of the shuttle and nagging flaws in the design of the main engines have thwarted plans for a fast turnround. Early hopes for 40 flights a year now look quixotic; Nasa would be happy with 11 next year. When it agreed to abandon its

expendable rockets, the air force complains, it expected each shuttle to fly again a week after returning from space, at about a third of the cost of an expendable. Instead, Nasa's turnround is between 30 and 40 days, and launch costs equal or exceed the costs of a conventional rocket.

Nasa is in no position to object to the air force retaining a fleet of expendable rockets in reserve for national emergencies. But it will fight tooth and claw against any proposal to divert the bulk of military payloads earmarked for the shuttle. If that happened, the space agency has been telling congress, Nasa would have to recover its costs by pushing the prices it charges commercial customers well above those charged by its European competitor, Ariane. And since America needs the shuttle to put together the manned space station President Reagan wants to see launched by 1992, it makes sense to keep it competitive.

Basic, camping and the great outdoors

Summer camp is a hallowed North American tradition, even to those who, like Mr Alan Sherman in the song, claimed to hate it. For close to 125 years large numbers of young Americans between the ages of six and 18 have set off each summer for their annual rest from tiresome parents. Parents over the years have had their own reasons for forking out the camp fees; this year, between June and August, some 4m young Americans are expected to sign in at more than 10,000 summer camps across the country.

Yet past generations of happy summer campers, who spent their camp days swinging baseball bats, playing team sports and generally learning to cope with mosquitoes and poison ivy in the great outdoors, would hardly recognise many of the camps today. In the 1980s specialisation is the name of the game.

There always was the occasional music camp and the like, which catered to the needs of the more highbrow youngster; today your average six-year-old has a bewildering choice—from computers to clown-training, from weight-watching to glass-blowing. A quick leaf through the back pages of the New York Times magazine recently revealed, among others, a magic camp in New Jersey, the promise of a "grand and upright experience" at a piano camp in Vermont, the offer of relief to summer sufferers in "the pollen-free Adirondacks" and a combination "trim down" camp for boys and "slim down" camp for girls in Massachusetts which boasts of losing 8,000lb each summer—evenly spread, one hopes, among the campers.

The most recent innovation, though, is the computer camp. It is reckoned that

there are 400 of them dotted about America this summer and all but about 10% are aimed at the young keyboard-user. Some offer the sort of baseball-and-Basic combination that combines outdoor activity with indoor study. Others simply offer seven hours a day of computer instruction, which presumably leaves the young computer addicts they serve looking distinctly pasty-faced by summer's end.

These single-activity camps, along with similarly intensive football clinics and tennis camps, are frowned on by the main accrediting organisation, the American Camping Association (ACA). The original philosophy behind summer camps for children, according to ACA's spokesman Mr Jim LeMonn, was to build character and help youngsters grow up by learning more about themselves. The association has about 2,200 accredited camps on its books, but only 180 of these offer computer instruction and all are required by ACA rules to offer a variety of other activities too.

Altogether ACA reckons to represent some 6,000 camps through its individual members, some of which include non-profit organisations such as the Salvation Army, the Scouts and religious organisations, which, because of the fees involved, do not apply for formal accreditation. For private camps, an ACA badge of accreditation attracts business as it shows that the owners have met the organisation's standards for programmes, basic hygiene, personnel qualifications and more than 200 other items.

As summer camps become more sophisticated in the activities they offer, so camp-owning is becoming big business.

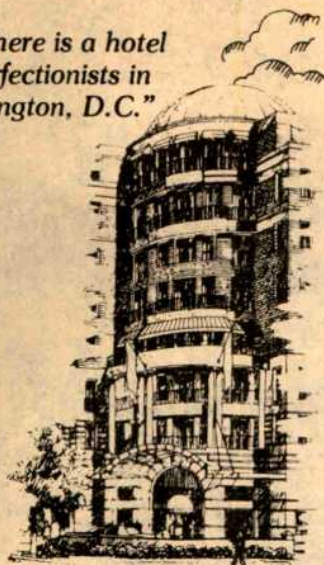


At one end of the scale, the non-profit-making organisers can take a child off your hands this summer for anything from \$1 to \$20 per day, depending on the range of activities on offer and the charitable instincts of the organisation. Private camps run from about \$20 to \$50 a day.

On top of that parents will usually have to come up with a hefty tip for camp waiters—and others too, depending on how well the kiddies are cosseted. On average, summer camps employ each year some 300,000 counsellors and programme staff, many of them college students just over camp age themselves, earning their beer money.

To help parents and children select the camp best suited to their needs and interests, ACA publishes a directory which not only lists the camps on offer but gives out handy tips on questions to ask. But better hurry: with the economy looking perkier this year, the summer camps are filling up fast.

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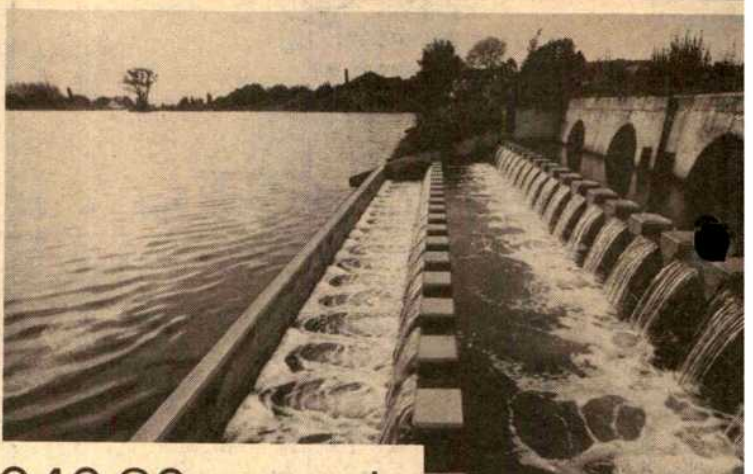
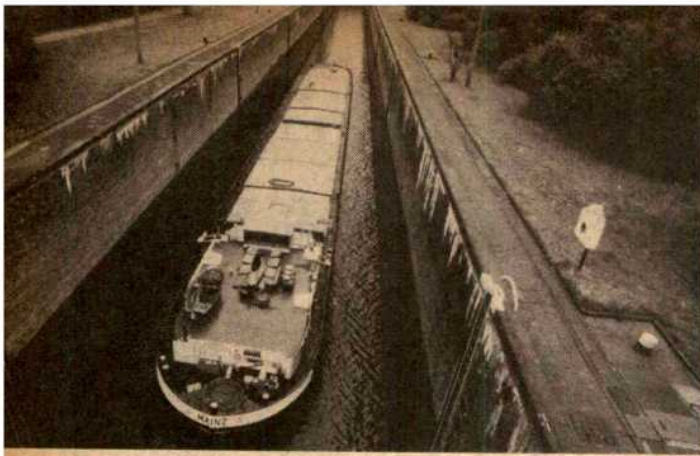
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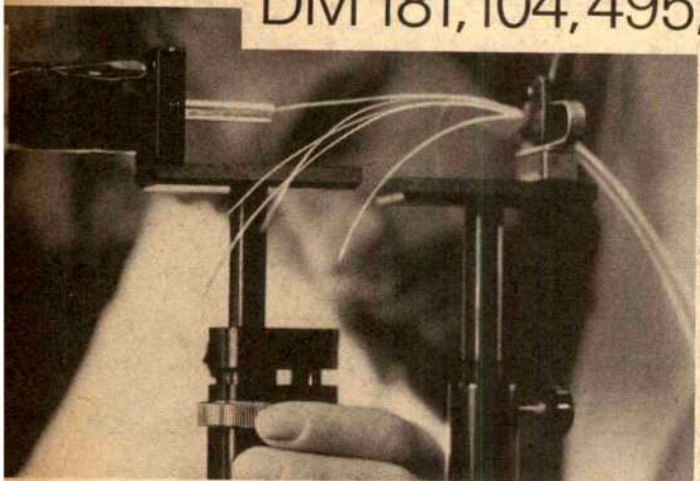
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EUROPE

The Ten hope it's adieu, not au revoir

FROM OUR SPECIAL CORRESPONDENT IN FONTAINEBLEAU

As they left the Cour des Adieux at Fontainebleau on June 26th, the ten EEC heads of government must have hoped they were saying a more lasting farewell to the British budget problem than the Old Guard did to Napoleon on his departure for Elba. For 15 EEC summits the issue of Britain's undue share of the community budget had either dominated the discussion or hung menacingly in the air. Sheer weariness was the strongest spur to settlement this time.

Temper was accordingly cool when the summit began and the summit chairman, President François Mitterrand of France, kept them that way. (The French are handing over the six-month rotating presidency of the community to the Irish at the end of June.) Mrs Thatcher knew that in her partners' view she had overplayed her hand at the Brussels summit in March. Both Mr Helmut Kohl, the chancellor of West Germany, and Mr Garret FitzGerald, the prime minister of Ireland, seemed to accept their share of responsibility for the failure at Brussels, when success had seemed so near. Everybody was aware that the EEC was rapidly running out of money and that European leaders had become scornful of the drawn-out wrangling.

Before the meeting began, Mr Mitterrand had decided that the less time the heads of government spent discussing the British problem the better. The summit began on Monday afternoon with a jolly lunch in the Hall of Columns during which, according to a British spokesman, the conversation was "entirely of a social kind". It then moved to the Salle de Bal, which had been fitted out as a conference chamber. Mr Mitterrand tactfully invited Mrs Thatcher to give a report on the London economic summit. He followed with a full account of his visit to Moscow. For the sake of balance, Mr Kohl was next asked to give a less obviously relevant report of his recent trip to Budapest. Only then did the 10 leaders turn their attention to the budget.

There was time only for a brief *tour de table*, but during this Mrs Thatcher made

a crucial concession which opened the way to the final agreement. Ever since the Brussels summit the British had been insisting that any settlement should be based on the compensatory mechanism for net payers to the budget agreed on there—and that discussion should be limited to the level of rebate that should apply to Britain.

Several other governments had suggested that this mechanism was too complicated. This was code for a deeper problem: West Germany. Like Britain, it is a net payer to the community. Unlike Britain, it is relatively rich. Countries like Italy were against a system that might, even theoretically, have benefited West Germany. Rather than risk facing this irksome problem, the British made their concession.

Mrs Thatcher said that, while she would prefer the Brussels formula, she would consider other ideas. What mattered most was the level of Britain's regular refunds, not the mechanism for getting them. It was agreed that the foreign ministers should take another look at the arithmetic over dinner on Monday evening and report back later to their principals.

Dinner for the foreign ministers was at a many-starred restaurant in the artists' village of Barbizon, a short drive from Fontainebleau. Although this was a working meal, the foreign ministers were evidently in a convivial mood.

Mr Cheysson, the French foreign minister, who presided at the dinner, outlined several new proposals from different sides, all but one of which were quickly cast aside. That left a straight choice between the Brussels formula and a far simpler French proposal: give the British a rebate on their net contribution of a fixed percentage each year. (Net contribution is defined as the difference between Britain's share of Vat revenue and its benefits from EEC expenditure.) Sir Geoffrey Howe, the British foreign minister, raised little objection to this French proposal. Shortly after midnight, Mr Cheysson led his colleagues back to the



Mrs Thatcher came to do a deal

heads of government, who had, almost to fill time, been discussing world affairs.

By this time, all that had to be decided was the size of the percentage. It was agreed that the French presidency would offer a firm number in the morning. French officials worked on a draft into the early hours in consultation with the British. The discussion was brisk and realistic. In the morning, they gave President Mitterrand a piece of paper which bore Mrs Thatcher's second pre-emptive concession: no haggling down from 75%, but a straight offer of 66%.

There followed the trickiest part. Mr Kohl had an early breakfast with the French president. Previously, the West Germans had helped wreck near-agreements with demands for rebates of their own or at least a smaller than usual West German share in the financing of Britain's rebate. This time Mr Kohl's requests were acceptably modest.

To appease domestic opinion, Mr Kohl asked to be excused one third of the West German share of the cost of the British settlement. This was a relief. The fear was that the West Germans would ask to be let off two thirds. Mr Kohl's moderation had a price. West Germany wanted to spend an extra 450m ecus of its own money to compensate its farmers for hardships caused by this year's low EEC farm price increases. But the EEC commission was against the proposal, which smacked of "national measures", a community taboo.

Would the summit override the commission and let West Germany go ahead, Mr Kohl asked? When Mr Mitterrand

How to judge the budget deal

FROM OUR SPECIAL CORRESPONDENT IN FONTAINEBLEAU

As a result of the budget agreement reached at Fontainebleau:

- Britain's 1983 budget rebate of 750m ecus (£440m) will now be unfrozen (leaving a net British payment for 1983 of 1,200m ecus);
- Britain will receive a rebate of 1,000m ecus in 1984;
- its rebate in 1985, based on 1983 estimates, will be 1,070m ecus (or 66% of the gap between its Vat payments to the community and EEC expenditure in Britain);
- for subsequent years Britain will get back 66% of this gap;
- the rebates will be financed by the other member states according to their relative shares of the EEC's Vat income from national governments. As an exception, West Germany will pay only two thirds of its share;
- the limit on the EEC's Vat revenues will rise from 1% to 1.4% of member states' Vat income, no later than the beginning of 1986;
- the British rebates will continue at this level until a further increase in EEC revenues, to 1.6% of member states' Vat income, is needed. Such an increase

requires unanimous agreement so—the British claim—they have a cast-iron guarantee that their rebates cannot be stopped or amended without their consent.

At Fontainebleau, Mr Gaston Thorn, the EEC commission president, tried to get the 1.4% Vat limit raised to 1.6%. He is not alone in fearing that the new revenue may soon be exhausted and that the whole question will have to be reopened in a very few years. He was promptly silenced.

The text of the new agreement says merely that a Vat increase to 1.6% "may" occur after 1988. No commitment was given. (This was a retreat from the provisional agreement reached in Brussels when it was spelled out that national parliaments would be asked to approve this increase.)

It will be open to any other country that finds itself in Britain's current position to ask for similar rebates—but no figures will be worked out in advance. Nevertheless, the percentage rebate (66%) agreed for Britain is based on its current relative prosperity, which gives a rough yardstick against which other

claims—Portugal would be the most likely candidate—could be measured.

Was it a good deal for Britain? Compared with no rebate at all, certainly. A five-year campaign has paid off. Compared with what Mrs Thatcher might have had at Brussels? The answer is debatable. At Brussels, the final offer from the other nine was for a 1985 rebate of 1,000m ecus. Mrs Thatcher held out for 1,250m. Splitting that difference would have meant 1,125m, 50m better than Mrs Thatcher got this week. Still, she got 70m more than the final offer at Brussels.

Nobody can claim a big victory or defeat on the basis of these differences. Mrs Thatcher may have unduly raised British expectations of what she could get, although this week there was more grumbling than explosion from anti-market Conservative back-benchers about the Fontainebleau deal. Her test will come in September, when parliament debates a bill raising Britain's Vat contribution to the EEC. It will be a surprise if this causes her trouble.

A sterner test for the Fontainebleau deal is was it good for the EEC? By agreeing to raise the EEC's income, the Ten have removed the most direct pressure for reforming a runaway farm policy, namely the threat of running out of money.

promised to support this request, settlement for Britain was almost certain. Mrs Thatcher managed to head off an attempt to reduce the figure to 65% by the West Germans, who had originally insisted on no more than 60%.

With relief and disbelief the heads of government rose for a second splendid Fontainebleau luncheon. This robbed them of any lingering appetite for difficult decisions. The awkward problem of financing the community's budget deficits this year and next was remitted to the Ten's finance ministers. The task of finding a new president of the commission was handed over to the Irish prime minister, Mr Garret FitzGerald, who takes over the EEC presidency from Mr Mitterrand on July 1st.

Two special committees are to be appointed. One is to advise on improving foreign policy co-operation and on advancing towards European unity; the other on steps to make the community more appealing to Europe's citizens. The Ten reconfirmed the target date for Spanish and Portuguese membership in 1986. Mr Mitterrand left shortly afterwards for Lisbon and Madrid to help hurry up the closing stages of the negotiations. France's six months in the chair was begun in an atmosphere of distrust and pessimism. Mr Mitterrand ended it with more achieved than any recent EEC president.

West Germany

Out for the Count

FROM OUR BONN CORRESPONDENT

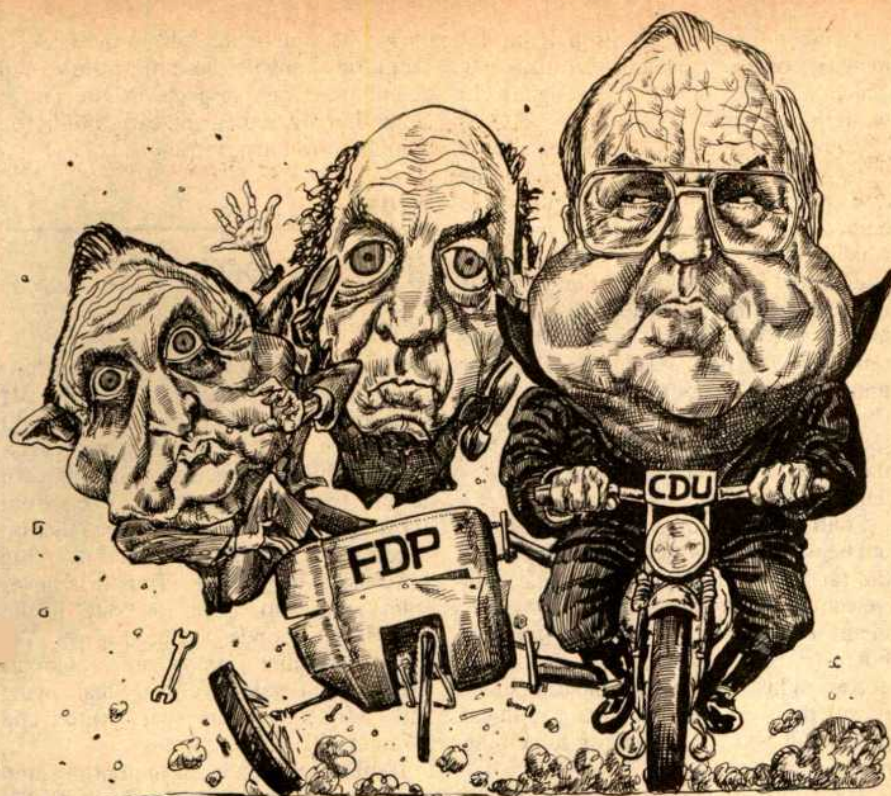
The resignation on June 26th of the West German economics minister, Count Otto Lambsdorff, may not be the embarrassment to Mr Helmut Kohl's government that both the chancellor and the opposition in Bonn had once thought it would be—perhaps because they had been expecting it for so long. Parliament voted last year to lift Count Lambsdorff's immunity from prosecution on charges that he accepted bribes for his party, the Free Democrats, in exchange for tax concessions. He himself voted with the majority to lift his immunity after seven years as minister; he must have known then that his career was in the balance.

Magistrates have now decided that Count Lambsdorff's case is to go to trial. The minister, who claims he is innocent, will have his day in court. The unflappable Mr Kohl will have to do without the talents of his blunt but capable chief economist. Hardest hit will be the tiny Free Democratic party; Count Lambsdorff was one of its greatest assets.

Mr Kohl has been under pressure for some time from his other coalition partner, the Christian Social Union, to appoint its leader, Mr Franz Josef Strauss,

to the cabinet. However, Mr Kohl can probably prop up the crippled Free Democrats and keep Mr Strauss out of the cabinet. He has appointed Mr Martin Bangemann (who lost his seat in the European parliament when the Free Democrats were annihilated in the recent European elections) to Mr Lambsdorff's cabinet seat. Yet even friends of the beleaguered Free Democrats are asking how long the party can hang on. It has an ex-minister suspected of slipping back-handers into the party's coffers, an incumbent minister hastily training on the job, a lame-duck party leader in Mr Hans-Dietrich Genscher, who has already announced his intention to resign, and steadily dwindling support from the voters.

The answer may still be longer than generally thought. West German voters have previously registered their disapproval of the Free Democrats' habit of trimming from left to right, according to the prevailing political winds. But in general elections they have usually rallied round in sufficient numbers to give the party the minimum 5% of the vote it needs to stay on in parliament. That at least is what Mr Genscher is banking on. By announcing his own resignation as party leader early, while staying on in the government as foreign minister, he hopes to give his successor time to restore the party's self-confidence before the next



Sidecar trouble for Genscher, Lambsdorff and Kohl

general election in 1987. The new leader could well be Mr Bangemann.

In the meantime, Mr Kohl's own position has been strengthened. He can claim some part of credit for the EEC's summit success at Fontainebleau. The prospect of

an end (see page 58) to the seven-week strike for a 35½-hour week by the metal workers' union, which has brought the West German car industry to a halt, has made Mr Kohl's main domestic success, economic recovery, look safer.

Italian Communists

The rise of a Latin-speaking bureaucrat

The Italian Communist party has opted for a darker shade of grey to succeed Enrico Berlinguer, its leader for 12 years. On June 26th Mr Alessandro Natta, a 66-year-old history professor who speaks fluent Latin, was chosen as party secretary.

The runners-up, like Mr Natta himself, were Berlinguer loyalists. Mr Achille Occhetto, the highly intelligent but rather dour head of the party's organisation, came in second. Mr Renato Zangheri, the well-groomed former mayor of Bologna who made the city a showcase of urban development but whom few regarded as a national leader, came third. Far behind were two men who had dared to stand up to Berlinguer, and who had slowly been squeezed out of inner party councils: Mr Luciano Lama, the party trade union boss, and Mr Giorgio Napolitano, the leader of its parliamentary party.

Mr Natta was a party official in the orthodox Stalinist mould when orthodoxy was the order of the day in the early years

of Togliatti's leadership. As the party slowly turned to democratic principles, and widened its separation from the Soviet Union under Berlinguer, Mr Natta moved with it, becoming its parliamentary leader before moving over to the secretariat, which runs the party administration. Last year he became head of the control commission.

His private toughness in that job was matched by a reputation for public caution. Mr Natta escaped censure when he approved a story in *L'Unità*, the Communist newspaper, which wrongly accused the leader of the Christian Democratic party in Naples of connections with the local Mafia, the Camorra; both the editor and deputy editor had to resign.

Mr Natta is widely viewed as a stopgap. His selection avoids a split within the party of many factions, whose quarrels are muffled, in public at least, by the tight discipline of democratic centralism. There are four main factions.

The party's liberal wing is headed by

Mr Napolitano and Mr Lama. Mr Napolitano, a protégé of the man who piloted the party on its Eurocommunist course, Mr Giorgio Amendola, has long urged the Communists to make an even cleaner break with the Soviet Union. After the 1979 general election Mr Napolitano advocated an alliance of the left with the Socialist party, as an alternative to Mr Berlinguer's strategy of "historic compromise" aimed at coalition with the Christian Democrats.

Mr Bettino Craxi's Socialists opposed alliance with the Communists, however, and Mr Napolitano was gradually eased out of the party's inner circle. Mr Lama, who has been in the front line of an argument with the Socialists in his union federation, the Italian General Workers' Confederation (CGIL), about Mr Craxi's attempt to tinker with the country's wage indexation system, supports Mr Napolitano in urging a union of the left.

The centre is represented by Berlinguer's followers, led by Mr Natta. This has steered a course between factions, avowing faith in democratic institutions, but taking care not to move too fast for a small, but dedicated, pro-Soviet core among the rank-and-file.

Mr Giancarlo Pajetta, the party's foreign affairs chief, who switched from old-guard Stalinism to denouncing both the Soviet occupation of Afghanistan and the declaration of martial law in Poland, also belongs to this faction. He has brought a lot of ex-Stalinists with him.

The libertarian left is led by Mr Pietro Ingrao, who has long and eloquently argued for greater democracy within the party. Some of Mr Ingrao's supporters were expelled from the party in the 1960s for publishing their own newspaper, *Manifesto*, but he was absorbed into the system, becoming at one stage speaker of the Italian parliament. Mr Ingrao is thought to back Mr Napolitano's policy of an alliance with the Socialists.

The Stalinist rump received just 3% of the vote at the party's congress in January for its motion urging a return to closer ties with the Russians. The Stalinists are led by the somewhat colourless Mr Armando Cossutta, who was not in the running for the leadership.

Mr Natta was chosen by a coalition of the centre, plus Stalinists in such areas as Liguria and Lombardy. More moderate officials in Veneto, Puglia and Sardinia see him as a useful caretaker, who in time will make way for a younger, more representative leader. Many Communists doubt that Mr Natta has the personality to build upon Berlinguer's achievement of making the party largest in the west, with a steady 30% of the vote and 1.6m members. Mr Natta this week confessed that he would "have to acquire" the late



Natta in the shadow of Togliatti

leader's popular appeal.

The Communist party's euphoria in inching ahead of the Christian Democrats—for the first time in postwar history in the European elections on June 14th—was mildly tempered by the regional elections in Sardinia this week. The Christian Democrats, with 32%, came comfortably ahead of the Communists, whose support increased by 2% to 29%; the Socialist vote, which failed to budge in the European elections, rose by 1.9%.

The result has heartened Mr Bettino Craxi, the Socialist prime minister, whose government seems to have settled down again. The Christian Democrats appear satisfied with the setback to Mr Craxi in the European elections, and are not pushing for a new man at the top, as some of them were a month ago. The leader of the small Social Democratic party, Mr Pietro Longo, whose head the Communists have been demanding after allegations of involvement in the P2 masonic lodge, seems disposed to step down from his ministerial job for a while. And the Communists will probably pause in their relentless attacks on the Craxi government to give Mr Natta time to work himself into his new job.

Portugal

Otelo's ghost

Peaceful Portugal has been shaken out of its summer lethargy by two extraordinary events. An armed faction allegedly led by a left-wing hero of the 1974 revolution, Lieutenant-Colonel Otelo Saraiva de Carvalho, has been rounded up; and the

government is pushing through parliament a controversial anti-terrorism law which may be among the toughest in western Europe.

The unpredictable Otelo (as he is known throughout Portugal) is one of his country's best-known public figures. He helped to co-ordinate the revolution which overthrew Portugal's dictatorship, and served in the military junta until it was ousted by a little-known major named Antonio Eanes. Unbowed, Otelo ran twice for the presidency. The first time, in 1976, he got more than 1m votes (but Colonel Eanes, promoted from major, won the election). Five years later, the quixotic Otelo campaigned for president again—and got 1% of the vote.

Politically, Otelo seemed to be gone, but he was not forgotten. The militants of the far left needed a famous name, and welcomed Otelo as he gravitated towards them. He formed the United Popular Force (FUP) in 1980, mainly from supporters of his 1976 presidential campaign. It was registered officially as a political party. But was it a cover for something more?

The police are convinced that the FUP was in league with Portugal's equivalent of Italy's Red Brigades, the Popular Forces of April 25th (FP-25), also founded in 1980. FP-25 has admitted killing 12 people, including businessmen and policemen, and making several bank robberies. One of the victims was killed because he had refused to pay FP-25's "proletarian tax", or protection money. In dawn raids on June 19th-20th in Lisbon and seven other towns, the police arrested 42 alleged FP-25 guerrillas and seized weapons, ammunition and explosives. Otelo is said to have been accused of "heading or running a terrorist group, association or organisation".

Some of the alleged guerrillas are said to have "repented", in the Italian style, and informed on their colleagues in return for light jail sentences or none at all. A telephone message to the authorities, apparently sent on behalf of about 30 members of the group still at large, claimed that they are tired of their clandestine life and want to do a deal with the government. But another faction has threatened more violence if Otelo is not released.

The carefully organised police raids coincided with the parliamentary debate on Portugal's anti-terrorism bill. Some suspect that the timing was deliberate. Portuguese who can remember the Salazar regime do not like the idea of secret police, and there is strong opposition to the bill. But the Socialist prime minister, Mr Mario Soares, is convinced that the country must have an effective security service. The bill would create one, per-

haps with training help from the CIA. It would also enable the authorities to tap telephones, put suspects in preventive detention, open mail and carry out house searches without a warrant.

Elysée

In the corridors

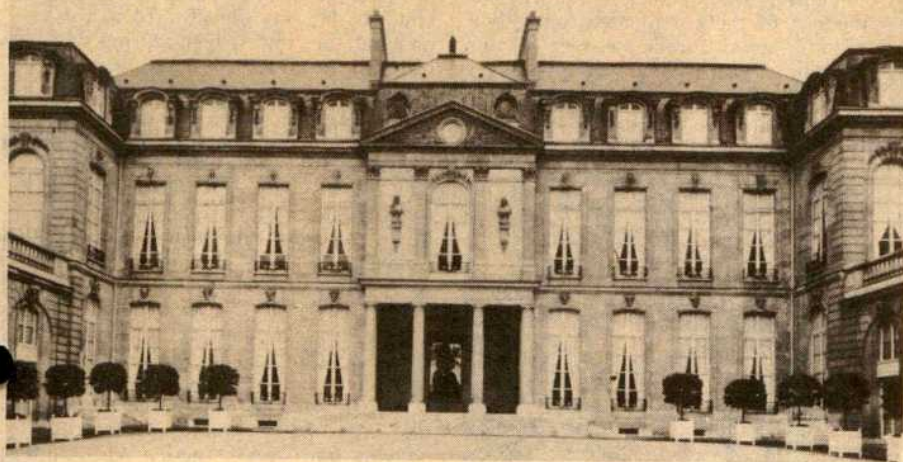
FROM OUR PARIS CORRESPONDENT

Not since de Gaulle has a French president held power quite so close as Mr François Mitterrand. As if allergic to committee work, he likes to take decisions at his own pace and on his own terms, keeping his counsel, even from those close to him. For advice he relies on separate but overlapping circles of young officials or old friends. Thus it is never safe to say who is "in" or "out" in the president's retinue at the Elysée. Y certain familiar trends are apparent: bright technocrats are already challenging the advisers whom Mr Mitterrand brought with him to power.

If office location is a sign of power, the main seat at the Elysée belongs to Mr Jacques Attali, a gifted, round-faced intellectual who can talk about any subject in the encyclopaedia and who is credited with teaching the president a little economics before his election in 1981. Mr Attali has the office next to Mr Mitterrand on the first floor of the *château*, as the Elysée is nicknamed. It looks out over the gardens, where Mr Mitterrand likes to take reflective strolls. To reach the president, visitors usually have to go through Mr Attali's room.

Mr Mitterrand values the constant flow of ideas and intellectual stimulation which his 40-year-old *conseiller spécial* provides. Early on in the Mitterrand administration, Mr Attali's was its supreme spokesman. Recently, his stock has fallen. Critics say he tries to do too much. (He rises before dawn to write books, of which he has published many.) Mr Mitterrand no longer lets him act as an interpreter of presidential policy.

Mr Attali's place as the star of the presidential staff has been taken by the secretary-general of the Elysée, Mr Jean-Louis Bianco, whose office is next to Mr Attali's, one away from the president's. Ironically, it was Mr Attali who brought Mr Bianco to the Elysée in the first place. The two men first met as pupils at the lycée Janson in Paris. While Mr Attali became one of Mr Mitterrand's advisers in opposition, Mr Bianco went off to the Haute-Provence department in south-east France where he ran an organisation for boosting rural employment. When Mr Attali suggested he return to Paris to work for the president, Mr Bianco had



The president's men: Attali, Bianco, Grossouvre, Penne and Debray

never met Mr Mitterrand.

The president and his secretary-general meet several times a day, and communicate even more often by written notes. The efficiency of Mr Bianco and of the director of the president's private office, Mr Jean-Claude Colliard, has clearly impressed Mr Mitterrand. Although he is not a Socialist, Mr Bianco attends the president's Tuesday political breakfasts with Mr Pierre Mauroy, the prime minister, and Mr Lionel Jospin, head of the Socialist party. Tall and slim, an avid reader of science fiction, Mr Bianco has come increasingly into the public eye. The guess is that in due course he may leave the Elysée to become a minister.

Mr Mitterrand has also kept faith with old acquaintances who stood by him during his long years in opposition. Younger members of the staff compare them to Napoleon's veterans, the *grognards*. One of Mr Mitterrand's most trusted friends, Mr François de Grossouvre, is the Elysée's mystery man, entrusted with secret foreign missions and contacts with French intelligence services. As befits a rich landowner, the bearded Mr Grossouvre also minds the presidential hunting estate.

Mr Guy Penne, another veteran, looks after African affairs. French presidents have always considered that relations with former French colonies are a matter for the Elysée, not for the foreign ministry. Mr Penne, a former dentist and enthusiastic Freemason, has one of Mr Mitterrand's sons on his staff.

Under Mr Penne's hand, the administration is being more accommodating to-

wards unpalatable regimes in Africa than it was when it began. At the start, Mr Régis Debray, who was once a companion in arms of Che Guevara, had a say in third world affairs. But his duties are vague and he is not in one of the inner circles—as indicated by the position of his office, far from the president's on the inner courtyard of the Elysée.

Not content to hear just from those he sees every day, Mr Mitterrand also seeks opinions from several outsiders, often over Sunday supper, at the president's private house in the rue de Bièvre. A conversation with his friend Mr Jean Riboud, chairman of the Schlumberger oil services group, is as likely to influence the president's thinking on industrial policy as a note from his official industrial adviser, Mr Alain Boubli. A former boss of Renault, Mr Pierre Dreyfus, also gives Mr Mitterrand frequent economic advice.

The president listens carefully to these different sources, but the decisions are his own. He shares his attention widely, not his power.

Jugoslavia

The *gubitasi* don't like it

FROM OUR SPECIAL CORRESPONDENT IN ZAGREB

"Comrade Tito, we swear to you that we cannot live like this any more." Self-confident strikers at a telecommunications plant in Zagreb chanted this mocking reversal of a well-known loyalty

pledge to Yugoslavia's late leader during a one-day work stoppage earlier this month. The lightning action—by senior workers who did not want to pay out of their own pockets towards a redundancy fund for laid-off colleagues—was quickly settled to the strikers' satisfaction.

The authorities were understandably eager to avoid trouble and reach agreement. The number of strikes in Yugoslavia is rising. Last year there were 313 of them (80% more than in 1982), involving 22,000 workers. Unions in the west would be thought spineless if they struck so seldom, but in Yugoslavia such numbers are a sign of militancy. Yugoslav workers are supposed to be able to air grievances in factory committees. In growing numbers, they are taking to direct action.

One reason for Yugoslavia's labour unrest is a new law, due to take effect on July 1st, under which employees in Yugoslavia's worst loss-making enterprises (*gubitasi*) are to be allowed to earn no more than the guaranteed minimum wage. (This is usually set at 55% of the average regional wage.) The law, which is likely to affect more than 3m people, has provoked loud complaints.

Many *gubitasi* are claiming exemptions on the ground that most of their losses are caused by the government's policies. A large cement factory in Croatia blames its huge losses on the government's "sliding dinar" policy, which has put up the cost of imported materials and equipment. The government is also keeping cement on the list of controlled (and therefore lower-priced) products. In response to pressure, the authorities might weaken the new law. But this alone will not satisfy discontented workers.

Real incomes have fallen for the fourth successive year. Inflation was running at an annual rate of 50% in May, and some fear that it may double by the end of the year. Some lower-paid Yugoslav families are already spending 70% of their monthly income on food. The average worker has to work for 26 hours to earn enough to buy a pair of shoes. The middle classes are feeling the pinch.

In its efforts to slow down inflation, the government is rejecting some firms' obligatory 30-day notices of price increases as "insufficiently documented". This is price-control by the back door and the International Monetary Fund, which is supervising Yugoslavia's economic stabilisation programme, disapproves. In the IMF view, facing world market prices is a necessary part of the cure for Yugoslavia's overblown economy.

Like other governments which supposedly follow the IMF's advice, the Yugoslav authorities agree in principle, but often fudge where they can in practice. To avoid this, the IMF wants the Yugoslavs to

EUROPE

accept automatic mechanisms that are difficult to meddle with. Some are in place already. By next April, for example, interest rates will have to be at least 1% above the current rate of inflation.

The economic news in Yugoslavia is by no means all bad. Industrial production increased in the first five months of this year by 4.3%. Hard-currency exports went up in the same period by 16%. But this is not enough to keep up with Yugoslavia's heavy financial obligations (it needs to find some \$5.5 billion to service its debt this year).

Correctly, Yugoslavia is determined to expand export production. It is ready to reduce consumption by tolerating a decline in living standards, for a while at least. But it is reluctant to face up to the job losses without which, senior economic officials admit, productivity cannot be increased. Yugoslavia's public sector could, on one reckoning, work more efficiently if its 6m-or-so labour force were cut by 30%. Job losses on that scale, however, would sharply push up unemployment. This is already bad enough, with some 930,000 people out of work, most of them under the age of 30. If more of Yugoslavia's migrant workers have to return home from the rest of Europe, things could get even worse.

All of this is a headache for the prime minister, Mrs Milka Planinc. The government's nervousness about industrial unrest is no doubt one reason for its crack-down on political dissidents, which continues with a severity that is unusual by recent Yugoslav standards.

As always in Yugoslavia, the question is complicated by the clash of national rivalries. Economic conditions are by no means the same in the six republics and two autonomous provinces. In the republic of Slovenia the rate of unemployment is only 1.6%. In the restless province of Kosovo, where the political crackdown is particularly harsh, unemployment is a dismaying 20%.

Planinc isn't smiling now



Europe's best soccer player

FROM OUR PARIS CORRESPONDENT

President Mitterrand thinks European unity might be boosted if Europe fielded a joint soccer team. In that unlikely event, most of the players could well come from his own country. France gave the rest of the continent a footballing lesson in the two-week European championship, which it duly won in Paris on June 27th.

Escaping from the sterile tactics and boring physical encounters which domi-

nate too much top-level soccer, the French showed that skill and inventiveness can still carry the day. Their 2-0 victory over Spain in the final marked a triumph for their manager, Mr Michel Hidalgo. He has transformed a fragile national side into a high-scoring outfit respected by all.

The championship restored the French captain, Mr Michel Platini, to the status of a national hero. When he left the ailing French club, Saint-Etienne, to play for Juventus of Turin in 1982, he was regarded as a renegade. His departure to play for an Italian club now is forgiven. When Mr Platini put in the winning semi-final goal for France against Portugal just before the final whistle, Mr Hidalgo reached out to stroke his captain's cheek as if he were touching something sacred.

Juventus and its owner, the Fiat motor firm, know what a prize they bought two years ago. With unashamed hyperbole, Mr Gianni Agnelli, the Fiat chairman, says he sees in Mr Platini the grace of the dancer Nijinsky and the strength of the bullfighter Manolete. After his nine goals in the European championship (including one in the final) most Frenchmen are confident that when they say he is the best soccer player Europe currently has to offer, few will disagree.



Platini is France's favourite

Warsaw pact

Nato comes up with new figures

Mr Joseph Luns, who handed over to Lord Carrington on June 22nd as secretary-general of Nato, had a surprise in store at his final press conference. According to a new Nato study, the Warsaw pact has only two thirds as many divisions within striking distance of western Europe as Nato thought it had two years ago.

In 1982, Nato's reckoning was that the Warsaw pact—the military alliance of Russia and eastern Europe—had 173 divisions facing the west. Nato now estimates that the Warsaw pact's ground troops prepared for action on the European front amount to only 115 divisions.

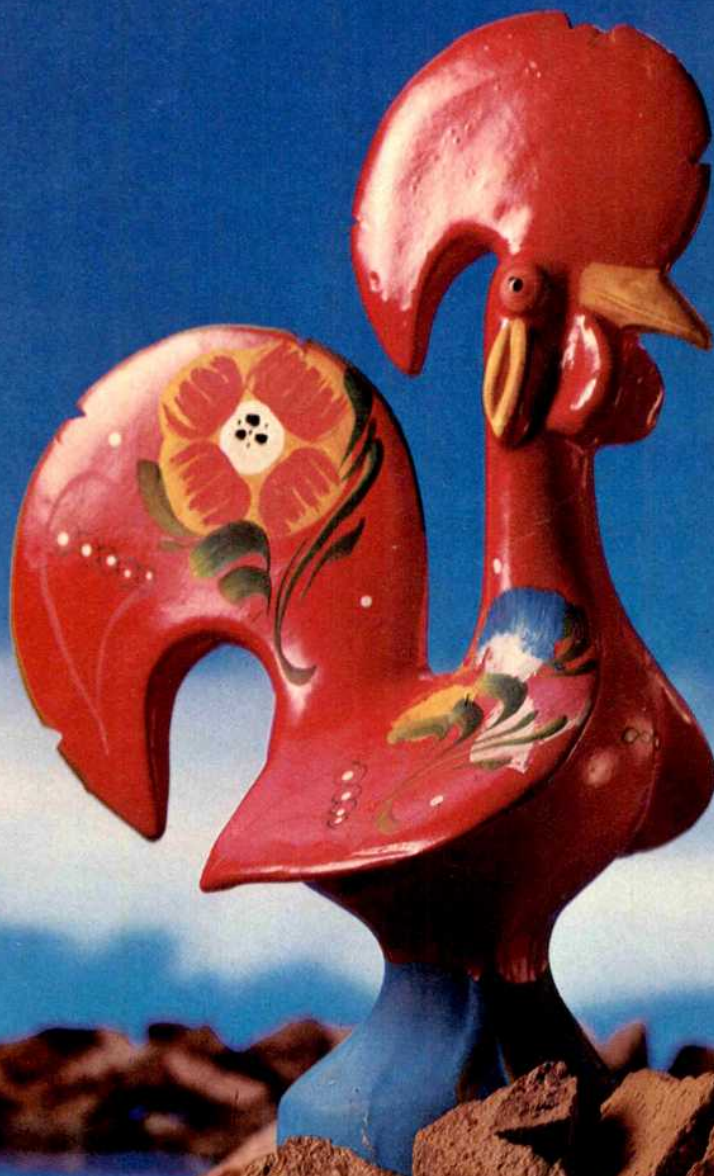
Why the sudden drop? The main answer is the inadequacy of Nato's old counting methods, which it has now tried to correct. The previous figure of 173 divisions included not only Warsaw pact divisions in eastern Europe but also those in six of the western military districts of the Soviet Union. Many of the Russian

divisions in those districts contain little more than a divisional headquarters and a skeleton unit, sometimes only a single company or battalion. These framework or "Category 3" divisions are not ready to fight. Before they could be brought up for battle, they would need a big infusion of recruits or reserves and a longish training period.

The new Nato report tries to distinguish these unprepared Russian divisions from troops that could fight at short notice. It also compares troop strengths after mobilisation. At short notice, the Warsaw pact could field 115 divisions and Nato 88 (the western figure includes reinforcements brought in from the United States). After full mobilisation, the estimated balance would be 192 Communist divisions against 115 Nato ones.

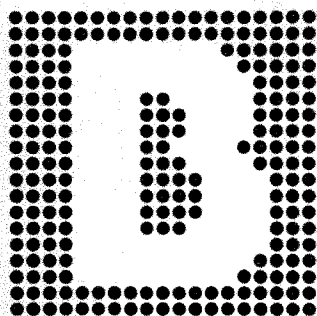
Anyway, measuring the strength of ground forces by counting divisions alone can be misleading. Warsaw pact divisions generally contain far fewer troops than Nato's although they have roughly the same quantity of heavy weapons. In a short battle, the higher ratio of arms to men could make a small Warsaw pact division the equal of a larger Nato one. In a longer battle, the numerical superiority of a Nato division would start to tell.

On the edge of Europe



A survey of Portugal

The
Economist



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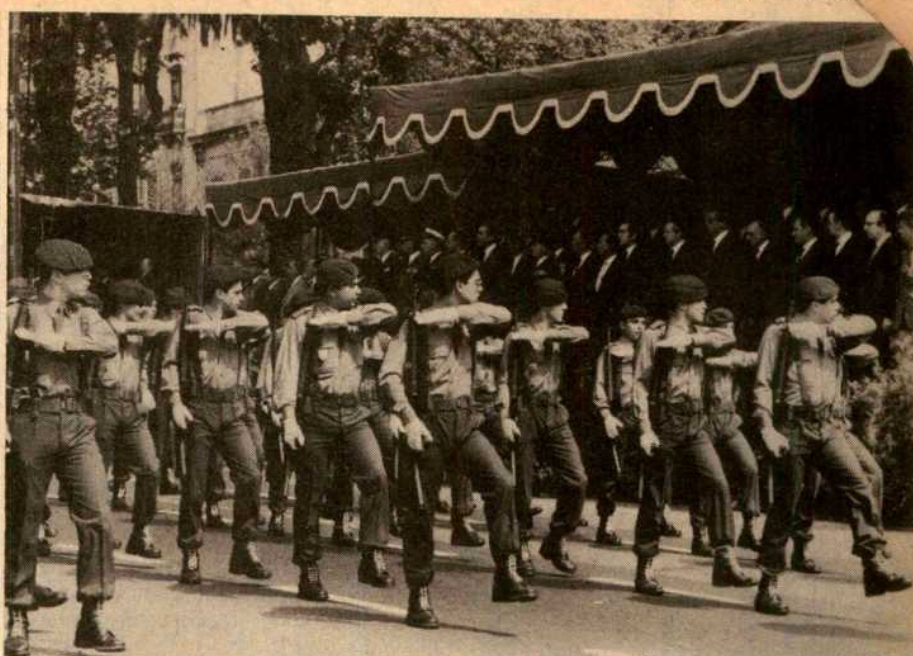
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Carnations then, discipline now

Down freedom way

Portugal, which has had 15 governments in the 10 years since its revolution in 1974 and is now in the depths of a recession, looks in a poor way from the outside. But its economy is proving surprisingly resilient and its political instability is less dangerous than it seems, as Robert Harvey reports.

Avenida da Liberdade—Freedom Avenue—has seen it all. The broad, French-style tree-planted arcade sweeps past the decaying eighteenth-century buildings of central Lisbon, connecting the triumphal statue of the Marques de Pombal, who rebuilt the city after the earthquake in 1755, to the symmetrical business centre of today. The avenue has been the scene of three turning points in the past decade:

- On April 25, 1974, a handful of majors, captains and lieutenants belonging to the Armed Forces Movement staged a coup that at a stroke put an end to Europe's remaining African empire. Within months Mozambique and Angola had been handed over to Marxist-Leninist guerrilla movements. A nationalist war against the minority white regime in Rhodesia, now nearly surrounded by hostile territory, became inevitable.

The length of the avenida was then thronged with people celebrating their freedom from the casualties and cost of colonial wars, as well as the end of nearly 50 years of dictatorship under Europe's pioneer monetarist, Antonio Salazar, and his successor, Marcello Caetano. Tanks were surrounded by men, women and children clutching red carnations, ex-

changing them with the soldiers.

The outpouring was entirely genuine. Hope was vested in a moderate, monocled, anti-war general, Antonio de Spínola, who had been asked to assume the presidency by the main leaders of the coup: Colonel Vasco Gonçalves, who subsequently became prime minister; Major Otelo Saraiva de Carvalho, the revolution's military strongman; and Major Vitor Alves and Melo Antunes, its theoreticians.

- April 25, 1975. The Avenida da Liberdade was choked with cars racing up and down, horns blazing and headlights flashing. General Spínola had been pushed out as president by the junior, more left-wing officers the previous September and chased into exile in March. The Armed Forces Movement could not, however, cancel the promised election, the first since 1926.

But the soldiers suggested that voters cast blank ballots, as an endorsement of continuing military rule. Instead, the Portuguese voted overwhelmingly for moderate democratic parties. Mr Mario Soares's Socialist party emerged as the biggest; that summer he led a peaceful popular crusade against the Armed

Forces Movement. In November, constitutionalist officers, led by General António Ramalho Eanes, seized control from the left and handed power over to the civilians.

- April 25, 1984. Ten years to the day after the revolution, those two same slightly faded symbols of democracy—General Eanes as president, Mr Soares as prime minister—take the salute at an impressive army march-past that seemed incredibly disciplined to those who had witnessed the long-haired, shambling soldiers of the 1974-5 period.

The army's swaggering commando regiments, which were largely responsible for crushing the left in 1975, are applauded by a large, conservative crowd. They cheer the ramrod-stiff President Eanes, still a symbol of authority, and whistle at the now greying, puffy-faced Mr Soares, a symbol of political bickering.

By the side of those two men stands a political ghost: General Spínola, not seen in public since 1974. A single soldier, out of the 2,600 that stomp past, holds a carnation half-hidden in his hand. One officer remarks caustically: "For the present military hierarchy, April is no more than the fourth month in the year."

The same afternoon, a well-organised left-wing demonstration of 500,000 people, carnations sprouting from hats, buttonholes and hands, tramps down the avenida shouting "April always, fascism never again", and "The people are with the Armed Forces Movement". There is a phantom among them too: the cavernous,



Nearly poles apart: Eanes and Soares

hollow-cheeked Mr Vasco Gonçalves, now retired from the army.

Of his old left-wing colleagues, Mr Alves and Mr Antunes, as presidential advisers, are muted in their public speeches. Major de Carvalho remained in the artillery but had to keep out of open politics. He was arrested earlier this month. For many of its instigators April 25th has been betrayed.

Mr Soares, for one, disagrees:

In the 10 years since 1974 we have built a solid democracy. We don't have terrorism of any kind, or problems with the army. The soldiers are now dependent on the legitimate and freely elected government. We are fighting the economic crisis courageously; the crisis is not more serious than that in Spain, Italy or France.

On each point, Mr Soares is nearly right. Such terrorism as there is in Portugal is tragically ineffectual: a four-month old baby and a septuagenarian were killed when the self-styled "April 25th Commandos" planted a bomb this spring at the home of a peasant landlord. But in June the government launched a drive against suspected terrorists, arresting about three dozen of them.

Portugal's major political problem—the overweening ambition of an army that installed the far-right dictatorship in 1926 and then tried to install a far-left one in 1974—is more or less contained. The 210,000-strong armed forces have been slimmed down to 42,000 men. Their officers are forbidden to take part in politics. The Armed Forces Movement's last constitutional niche, the rather toothless "council of the revolution", was dissolved in July, 1982.

Yet old habits die hard. Take a recent statement by the armed forces' commander, General Lemos Ferreira: "The armed forces have high expectations and hopes that superior national interests will prevail in the near future." He might have finished the sentence: "over sectari-

an party ones." The general also warned that "freedom can never be confused with anarchy". A nudge to Portugal's squabbling politicians?

Even the country's two architects of democracy, General Eanes and Mr Soares, seem less than certain that it is quite safe as yet. The president caused a stir earlier this year by talking about the "authoritarian forces" that threaten democracy. He softened this in a later speech: "Our democracy is entering a decisive and vital period not because there is any anti-democratic threat but because there is no room for new mistakes."

Mr Soares, who commented dryly that the president's remarks "are not always very clear" has nevertheless billed his government as "Portugal's last chance". He has not spelt out what happens if his government fails.

Democracy is not all that deeply rooted in public opinion. A poll taken this April on the revolution's anniversary showed that 83% of the Portuguese welcomed the greater freedom of expression since 1974, while some 55% were happy about the greater elbow-room for young people. More than half of those questioned thought Portugal's image in the world had improved as a result of the coup.

Yet only 35% valued the right to vote for political parties, compared with 27% who did not. A majority of those asked thought that the quality of education, prospects for the young, social stability, economic development, family harmony and morality in public life had deteriorated since 1974; and an eyebrow-raising 66% considered that crime had increased, while 70% recognised that employment prospects had deteriorated.

Some 31% complained that their economic circumstances had worsened, compared with 21% for whom they had improved. Those polled heartily approved of pulling out of the colonies, by a

69% to 22% margin, but heartily disapproved of the way it was done, by 73% to 14%. They also supported the state take-over of much of industry during the revolution, by 53% to 32%, but disapproved of the manner, by 67% to 16%.

An increasing number of opinion-formers in Portugal's conservative newspapers suggest that everything has taken a turn for the worse over the past 10 years. Far-left ones, bewailing the "lost" revolution of April, make common cause. Mr Gonçalves recently asked: "Where is freedom when there is no freedom from hunger, no freedom to be educated?"

The debit side

On the face of it, the post-April balance-sheet is depressing. Since 1974, wages have risen by roughly 500%, but prices have kept ahead. Portuguese inflation has exceeded 20% in every post-revolution year except 1976 and 1980. Food prices have risen particularly sharply: a kilo of beef that cost 60 escudos 10 years ago costs 600 today; a kilo of bananas that cost 12 escudos costs around 130 today.

Unemployment has doubled from 5% to 10%. The escudo is worth around a ninth of its 1974 value, compared with a basket of European currencies. And, since the revolution, Portugal has not had a current-account surplus in any year.

This dismal economic performance has been accompanied by a political shambles. Democracy was installed in 1976 after six provisional governments. The first democratic governments were led by Mr Soares, whose Socialist party started by governing alone, then in coalition with the right-of-centre Centre Democrats. He was followed by three non-party technocratic prime ministers, who in turn were succeeded by what looked like a stable right-of-centre government.

But its tough-minded leader, Francisco Sa Carneiro, was killed in an aircraft accident in 1980. An interregnum followed, under a weak leader, Mr Pinto Balsemao. The centre-right coalition broke up in disarray and, after a general election, an alliance was formed last June between the two main parties, the Socialists and the right-of-centre Social Democrats.

After this experiment, Portugal will have virtually exhausted its political combinations. Ordinary Portuguese, so sceptical already, might then prove indifferent if somebody took the politicians by the scruffs of their necks. That somebody could be no other than a determined president. But the door to renewed army intervention, although shut, is not yet bolted. What the soldiers are carefully watching is whether Mr Soares's latest government can build on the surprising success of its economic policies so far.

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Unsteady course

Political stability is being attained by inches

Portugal's national symbol is the cock of Barcelos. The story goes that a man who had been condemned to death was brought before his judge shortly before execution. The prisoner asked the Virgin Mary to show a sign of her belief in his long-protested innocence. The cock that the judge was eating got off the plate and crowed. The moral is, if you don't succeed at first, keep trying and a miracle may happen.

Portugal has tried, tried and tried again since democracy was installed in 1976 to attain political stability, and there has been no miracle. During 16 years of democracy in 1910-26, there were 18 governments; instability prompted a coup. So far, during eight years of democracy, there have been nine governments. Yet it is possible that instability is becoming institutionalised, Italian-fashion. If so, the Portuguese may be more gloomy than they need be about their revolving-door ministries.

There are five main causes of the country's political instability. The first is the way the country's soldiers continue to finger their safety-catches. Second, the fact that a large part of the Portuguese left—the Communist party and the farther left which together account for around a fifth of the vote—spent so long in jail (the Communist leader, Mr Alvaro Cunhal, did 13 years) means that it has yet to accept the rules of a free society.

Third, the arithmetic of Portugal's four-party system allows for coalitions of convenience, but not of ideological common purpose. Fourth, there remains an undefined boundary between presidential and parliamentary power. The fifth is the way Portugal's parties are built around vying personalities—the "barons". Yet all of these problems look more serious than they actually are for a democracy that is only in its ninth year.

Locked into barracks?

Take the question of the army first, as it is potentially the most dangerous. On the surface, the soldiers' presence in politics is overbearing. The president, General Eanes, is a former army commander. His main challenger at the last presidential election in 1980 was another soldier, General Soares Carneiro. The present commander-in-chief, General Lemos Ferreira, regards himself as the final guarantor of Portugal's constitution.

Portugal's army units are stationed just as threateningly as before the 1974 coup in bases just outside Lisbon and the main cities. The capital is only a rumble away

from the tank base at Santarem and a parachute drop away from the air and paratroop base at Tancos; the light artillery regiment and Amadora commando regiments are in Lisbon itself.

There is talk of military candidates standing in the presidential election next year. A succession of soldiers and ex-soldiers marched back into the footlights during the latest April 25th celebrations. And shortly afterwards Major Vasco Lourenço, the left-wing captains' main spokesman these days, opened a "seminar on the revolution" in which he suggested that Portugal's difficulties arose less "from April than from the fact that April is every day less present in the

posed in the past nine years. The danger is less from the left-leaning April clique, in the view of most observers, than from the rather conservative officers now running the army who complain that the politicians are taking too long to resolve the country's economic problems.

The Soares government has been firmer with the army's political pretensions than its predecessors. Last autumn a friend of President Eanes, General Garcia dos Santos, was fired as head of the army when Mr Soares came to office; the general had been rather too closely involved with officers in the April 25th Association. General Salazar Braga, a non-political officer, was appointed in his place. In February another friend of President Eanes, the head of the three armed forces, General Melo Egidio, was forcibly retired, after he had expressed a wish to stay on in his post after retiring age.



Eanes's long farewell

direction of the people's affairs". Another speaker at the seminar praised the concept of "the existence of a military elite" to guide the country.

Most worrying of all has been the setting up of the April 25th Association, which claims to have a membership of 2,400 officers sprinkled throughout the three services. This has alarmed the military hierarchy, which is trying to make the divisions between the three services more rigid so as to make a coup more difficult. These men get together for dinners which, in fact, are political talk-ins.

Yet democratic politicians scoff at the pretensions of these veterans of the flower revolution. The concepts of discipline and rank in the army have been reim-

The government reckoned that General Salazar Braga was too new in his army job to be given the top armed forces' post—which usually goes to the army—and that his longer-serving deputy, General Firmino Miguel, a former associate of ex-President Spínola, was too politically tainted. The job went instead to the air force chief, who had been in his job for five years, General Lemos Ferreira.

By Portuguese standards, General Lemos Ferreira is impeccably constitutionalist. When he talks about politics it is not because he wants to meddle in them, but because he is trying to dampen the political ambitions of his brother officers down. He has emphasised that the army wholly accepts the civilian control enshrined in the country's new National

Defence Law.

The general has welcomed Portugal's application to join the EEC, slapping down those officers (with whom President Eanes had some sympathy) who looked nostalgically towards Portugal's African ex-colonies for a world role and who expressed some yearning, too, for authoritarian systems of government.

He has emphasised Portugal's commitment to Nato, pointing to the role that could be played by its recently formed air portable brigade on the central front in West Germany. Portuguese A-7 ground attack aircraft have also recently been carrying out joint manoeuvres with Nato countries. General Lemos Ferreira also emphasises the country's naval contribution to Nato: Portugal is planning to buy medium-size Kortenaer-class Dutch frigates, which will be partly assembled in Holland and partly in Portugal itself. The United States, West Germany, Holland and Britain, among others, will chip in on the cost.

Portugal is likely to co-ordinate its naval efforts with Spain, if it joins Nato. General Lemos Ferreira has also laid stress on the air base at Lajes in the Azores (where there is also an underwater listening station for Soviet submarine movements in the north Atlantic). In December, agreement was reached that American aircraft would continue to use the base for seven years in exchange for \$1.3 billion in credits.

If the need arises, General Lemos Ferreira is plainly a man who will do his duty as he sees it, and intervene in politics. But, in his view, there is no such need today.

The last Stalinists?

The Portuguese Communist party, on the other hand, does not pay even lip service to democracy. It denounces Mr Soares as being "against the people", irrespective of the way in which the government polled three times as many of "the people's" votes as the Communists at the last election. At the Communist conference in December, Mr Mikhail Gorbachev, the man most likely to succeed Mr Chernenko as Soviet leader, was guest of honour.

The hard-line Stalinism of Mr Cunhal has, if anything, been reinforced over the past few years as softer communists elsewhere in southern Europe came a cropper. The Portuguese Communists point to the fall in the Italian Communist party's vote from 34% in 1976 to 30% last year; and to the fall in Spanish Communist party support from its low high-water mark of 10% in 1977, under the leadership of the self-appointed philosopher of Eurocommunism, Mr Santiago Carrillo. The red-blooded Communist party in

Portugal has managed to hang on to 16%-18% of the vote, and its membership has increased from 115,000 in 1976 to more than 200,000 today.

Yet the Communists' bark is worse than their bite. They control the biggest union federation, the General Confederation of Portuguese Workers (CGTP), which has become stronger since Mr Soares started to enforce austerity measures upon his Socialist followers in the General Workers' Union (UGT), whose recent slogan—"let's give the government the benefit of the doubt"—sounds rather feeble.

Last year was almost strike-free, apart from a seven-week stoppage at the Lisnave shipyard. This strike seems to have been counter-productive: the UGT subsequently won two seats on the workers' committee at the shipyard, to the Communists' five, and this year may win as many as the Communists. In May, the CGTP's general secretary, Mr Armando Teixeira da Silva, said threateningly that "mass action" would be intensified "until the fall of the government". Yet Mr Cunhal knows that his supporters are wary of striking in a recession; the party confines its activities to mass parades, like a 300,000-strong march on May Day.

Four-legged race

Even the Communists, it seems, accept some of the rules of the democratic game. Yet indirectly they contribute to Portugal's chronic parliamentary instability. Although they have fewer than a fifth of the seats (44), they are shunned by the other three main parties, the right-of-centre Centre Democrats (30) and Social Democrats (75), and the left-of-centre Socialists (101). So although the left has a majority of seats in parliament, it cannot form a government. But neither can the right, since the Communists and Socialists together can outvote it.

Shaky coalitions and minority governments have become the order of the day, except when the right wins an overall majority, as it did between 1979 and 1983.

Possible coalitions, apart from the present grand coalition between the Socialists and the Social Democrats are: Socialists, Social Democrats and Centre Democrats; Socialists and Centre Democrats; a minority Socialist government supported from the outside by the Communists or by one, or both, of the right-of-centre parties; or a non-party prime minister appointed by the president balancing on these rolling logs.

The president who lost his clothes

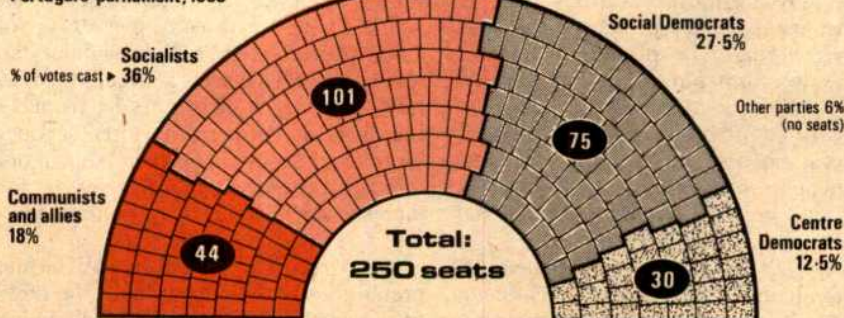
The president's role adds further complexity to the scene. When the parties cannot agree on a government, his power to appoint a prime minister and to refuse a dissolution of parliament becomes significant. President Eanes made full use of this in the 1978-9 interregnum, successively appointing three cronies, Mr Alfredo Nobre da Costa, Mr Carlos Mot Pinto and Miss Maria de Lourdes Pintasilgo, as prime minister. Since then the parties have joined forces in cutting the president down to size (which has also been evident from the vigorous way in which Mr Soares has purged the president's supporters from senior army posts).

It has long been apparent that that genial, well-travelled bon viveur, Mr Soares, could not stand the ascetic, precise, insular General Eanes, even though they broadly share the same political views. Yet it has been sad to watch the whittling down of the man who probably did more than any to ensure that democracy would win out in 1975.

Over the issue of abortion, in particular, President Eanes has been roasted over a slow fire: the law was pushed through in January by the Socialists and the Communists voting together, for once, while the Social Democrats and the smaller Centre Democratic party, supported by hellfire sermons from the archbishop of Braga, opposed it. President Eanes, who has posed as a pillar of moral rectitude with vaguely socialist inclina-

Pieces that won't fit

Portugal's parliament, 1983





Hopefuls on the right: Freitas do Amaral and Mota Pinto

tions, was pulled both ways.

He dithered for a month over whether to approve or veto the law, at length asking each of the party leaders in turn whether a referendum might not be the best way out. They all said no: the anti-abortionists feared they would lose, while the pro-abortionists had won the vote in parliament. At length the president signed the bill in April to avoid a major constitutional clash, earning the title "The president who legalised the death penalty" from the Catholic press, and getting no thanks from the left, which wondered what took him so long.

The government chose that moment, cruelly, to announce the arrangements for President Eanes's retirement: he will have an office and a telephone at public expense; a chauffeur-driven car; and four fifths of his old pay.

Another test

An army that is being pushed into the background; a Communist party that does not convert its vitriolic opposition into action; an unstable parliamentary setup that, however, is drawing up unwritten rules to handle its frequent crises; and a president who is slowly being elbowed offstage by parliament. The prospects for Portuguese political stability are better than they look at first sight.

The presidential election is looming, however. It will strain tenuous political alliances. Mr Soares is determined that the winner should be not another general but "a party man who after the election can rise above party and represent all the Portuguese, as happens in any European country". That is, himself.

However, if Mr Soares stands, his coalition partners, the Social Democrats,

will face a dilemma: should they put a candidate up against him? The Socialists are offering a deal: if the Social Democrats support Mr Soares, Mr Mota Pinto, their leader, who is now deputy prime minister and defence minister, would become prime minister. But he would then be uneasily dependent on Mr Soares's goodwill.

Some Social Democrats suggest that Mr Mota Amaral, the very Catholic, rather priestly, tombstone-chinned governor of the Azores, could be the Social Democratic candidate. But Mr Mota Pinto had no intention of being eclipsed. At the congress in March of that endemically faction-ridden party, he joined forces

with the right-of-centre Social Democratic chief in Lisbon, Mr Marcelo Rebelo da Sousa, to defeat the left-leaning Mr Mota Amaral for the presidential nomination.

That left the issue of whether Mr Mota Pinto will stand against Mr Soares still open: if he does, a bust-up between the two coalition partners would be inevitable. The Social Democrats might consider backing a military candidate, as they did last time, to let them off the hook. The man most commonly talked about is the deputy army chief, General Firmino Miguel.

The problem is further complicated by the fact that the right-of-centre candidate with much the best chance of defeating Mr Soares is Mr Diogo Freitas do Amaral, the serious, decent, highly respected and charismatic former leader of the Centre Democratic party. Mr Freitas do Amaral bowed out of politics last year, after the death of Sa Carneiro: the Centre Democratic leader had been Sa Carneiro's deputy prime minister and was affected by the death, in the same plane crash, of his closest political and personal friend, the ebullient defence minister, Adelino Amaro da Costa.

Discontent with the austerity measures taken by the present government has begun to rise, and the memory of Sa Carneiro has acquired a golden hue. Mr Freitas do Amaral is seen as the inheritor of Camelot. If he runs, Mr Soares could conceivably be in trouble: many Social Democrats would join the Centre Democrats, whose rating in the polls has risen to some 16%, to vote for Mr Freitas do Amaral; while the Communists have vowed never to vote for Mr Soares.

Even if he loses, Mr Freitas do Amaral



Dissidents in the woodpile

would be well placed to set up a new right-of-centre party. This might embrace the Centre Democrats and much of the Social Democratic party.

Mr Soares could also face trouble from the left. A dissident Socialist, like Mr Salgado Zenha or Mr Lopes Cardoso, may run against him, protesting at the government's "conservative" policies and picking up Communist support. President Eanes may field his own candidate to represent the centre left: Miss Lourdes Pintassilgo is a possibility. Again, she might pick up Communist support. The Communists may field their own candidate in the first round of the election (there will be a run-off between the two leading candidates).

Fractious personality politics is the fifth

curse of Portuguese politics. Still, it is vastly preferable to the conspiratorial personality politics that used to take place when the army was running the show. The chances are that next year Portugal will have its first non-parade ground president, be he Mr Soares or Mr Freitas do Amaral, since 1926.

Whatever happens in the presidential contest, the present government is unlikely to last much beyond the early months of next year. But 18 months or more will have been a long time for a Portuguese government. Its fall is unlikely to cause mutters of ungovernability. Instead, a Socialist minority government will probably be formed to tide the country over to its next parliamentary election.

Too tight to breathe

Portugal's economy is improving, but not without pain



"Portuguese workers cannot tighten their belts further, because there are no more notches in them", claims one trade union leader. Portugal, already western Europe's poorest country, has a distinctly third-world look about it today. Beggars, junkies and prostitutes now throng Lisbon's central streets. The shanty towns that ring the outskirts of the big cities are growing larger.

Teachers tell harrowing tales of children coming into schools too emaciated to take part in physical sports. Pupils are said to faint from hunger in the classrooms and always to ask for second helpings at lunch (children from deprived families are entitled to a derisory \$2.50 a year in social welfare).

Mr Soares says he has personally seen no evidence that people are going hungry, and recently rather shrilly attacked the Portuguese press for "giving a completely false image" of Portugal. Yet even the cardinal archbishop of Lisbon referred to the problem in a recent sermon. The increase in poverty stems largely from the doubling of unemployment, to around 10%, or 400,000 people.

The labour force was swollen by the 600,000 or so refugees from Portuguese Africa (*retornados*) during the late 1970s and by a growing trickle of repatriated workers from Europe. Some 4,000 Portuguese have returned from West Germany so far this year. Many of the unemployed are maintained by their relatives; others

live on the fringes of the expanding black economy, which is now thought to be the equivalent of 16% of gdp.

To the unemployed and underemployed, the Portuguese have added a new category: the unpaid. As the nationalised industries' debt grows and government subsidies are cut back, and as private firms are threatened with closure, more and more workers have not received pay packets at all this year.

The CGTP, the communist trade union organisation, claims the number is around 150,000, although it is probably nearer 90,000. Some 20,000 of them are steelworkers in Setubal, just across the Tagus river from Lisbon. About \$100m in all is owed in back pay. Wages for those lucky enough to get them plunged by perhaps as much as 11% in real terms in 1983; increases in public-sector wages this year were running at around half (16%) the rise in the cost of living (30%).

Bleak? For the moment, yes. But the present government is not to blame. Responsibility can be traced back to the old right-wing dictatorship, which expanded Portugal's economy vigorously during the late 1960s and early 1970s in the very areas that were about to be most affected by world recession: shipbuilding, ship-repairing, steel, refineries and textiles.

With the disappearance of its African empire, Portugal lost its main source of cheap raw materials, as well as a captive market. In addition, most Portuguese industrial development was funded by a banking system owned by a handful of families. They made cheap credit too readily available to industries run by personal or family connections, regardless of their profitability.

The 1974-75 revolution compounded all these problems. The banks were nationalised. The big industrial empires—cement, steel, the main shipbuilders *Setenave*, the main brewery, *Sagres*, and the industrial conglomerate *CUF*—were grabbed by the state and run at big losses. Briefly, wages doubled in real terms. Agriculture in the southern half of the country was collectivised and farm production plummeted. Foreign investors made for the nearest aircraft out of Lisbon, domestic investment dried up, inflation rose to around 30% and the balance of payments plunged into the red.

This mess was inherited in 1976 by a minority Socialist government under Mr Soares which, in the early stages of democracy, opted out of making any controversial decisions. It was left to the rather tough "technocratic" government of Mr Alfredo Nobre da Costa to put Portugal back on course. The right-of-centre government of Francisco Sa Carneiro speeded up the process of recovery.

Sa Carneiro's death in 1980 changed

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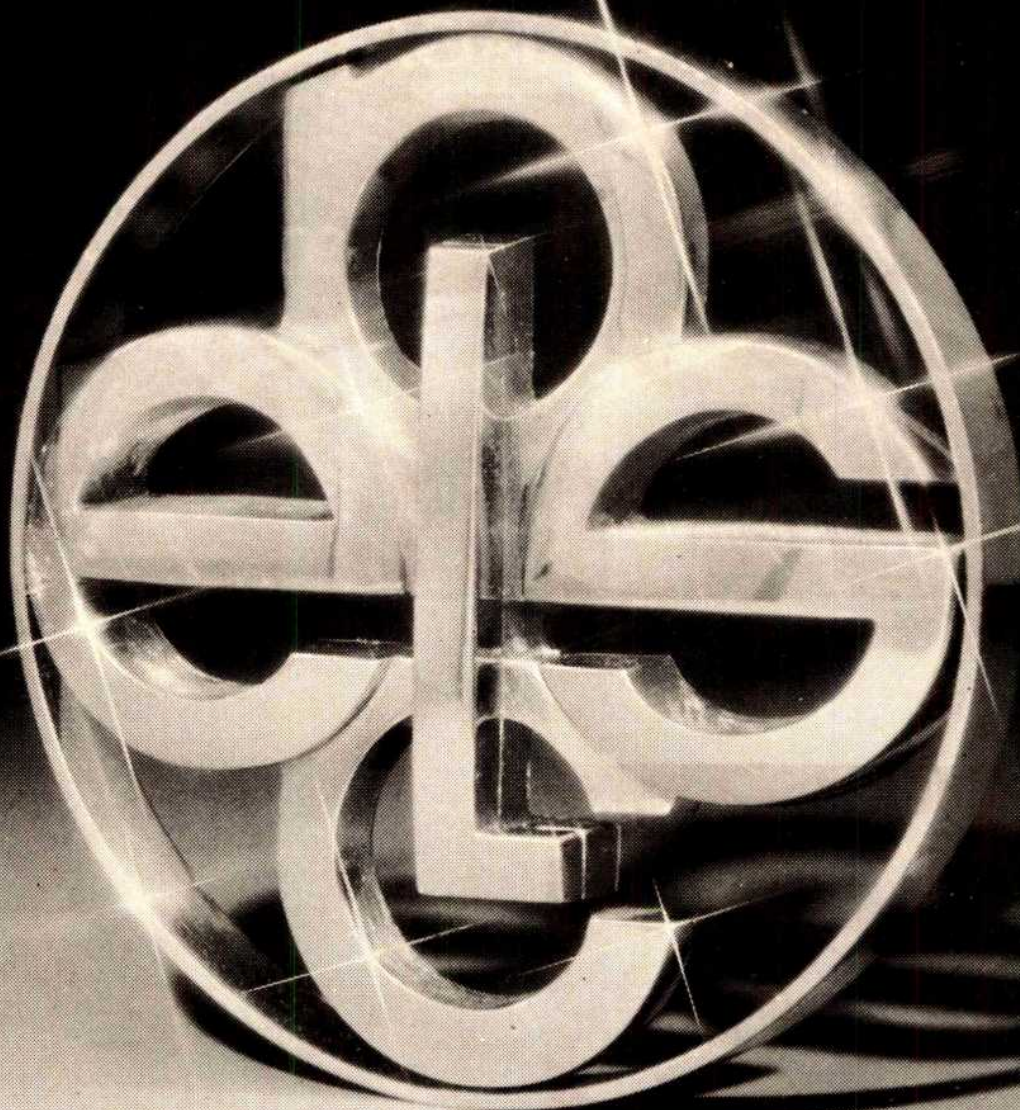
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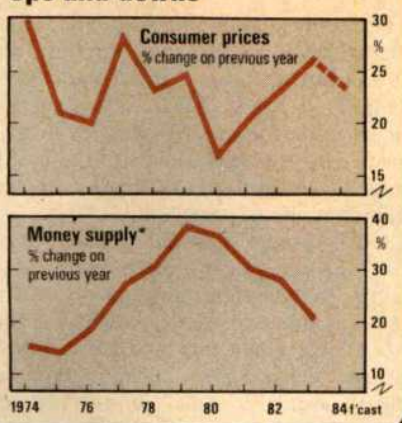
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Ups and downs



that: his weak, populist successor, Mr Pinto Balsemao, took advantage of the improvement in Portugal's balance of payments and the ready flow of cheap credit to expand the economy. Portugal experienced a mini-boom, growing at a rate of 3% a year between 1980 and 1982. The trade balance plunged deep into deficit (\$4.5 billion in 1982) and Portugal borrowed money from abroad to cover the gap.

Eventually commercial bank credit fell to a trickle, and the International Monetary Fund was sent for. The IMF reached agreement with the Portuguese last August. It was left to a chastened Mr Soares, who won last year's election, to pick up the pieces. Mr Soares has since candidly admitted that he knew too little of economics during his first ministries. He promised austerity during the election campaign, and he has delivered it—with spectacularly fast results.

The recession has been deep: gdp fell by around 0.5% last year and this year is expected to slide by about 2.5%. The effects are strongly felt in a country where a large part of the population lives on the breadline.

Their misery has been the price for a dramatic improvement in economic performance. On all counts except one, the targets set by the IMF have been met with room to spare. On the balance of payments, the IMF had sought a reduction in the current-account deficit from \$3.3 billion in 1982 to \$2 billion. The Portuguese got it down to \$1.7 billion, and there seems little reason to doubt that they can achieve the target of \$1.25 billion this year.

The turnaround was achieved partly through a hefty devaluation: the escudo was devalued by 12% last June, while the country's crawling-peg monthly devaluations were increased from 0.75% a month to 1%; the escudo has slipped by 40% against the dollar in a year. Imports, made on average a third more expensive

in terms of escudos, fell by 15%, from \$9 billion to \$7.6 billion. Exports went up by 11%, from \$4.1 billion to \$4.5 billion, which was backed by a healthy improvement in the volume of exports.

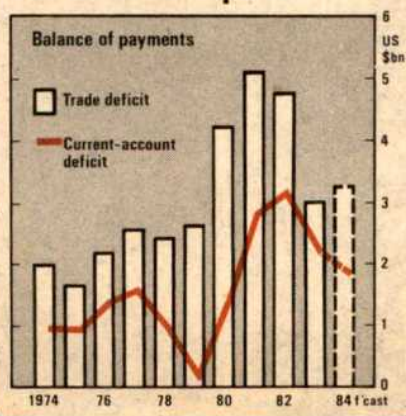
Invisible earnings soared, from \$164m in 1982 to \$280m in 1983—an increase of 70%. The improvement in the current-account balance was surprisingly achieved in spite of a sharp fall in emigrants' remittances, caused largely by the return of emigrants from host countries in Europe to Portugal, and a slight falling off in tourism.

The checklist of Portugal's other economic achievements against IMF targets is equally impressive. Because the current account improved so sharply, there was less need for borrowing. The IMF wanted the foreign debt to increase by no more than \$1 billion last year. Portugal borrowed only \$700m more, and expects to raise about \$900m more this year. The IMF wanted the budget deficit reduced from 12% to 10% of gdp; the Portuguese managed to cut it to 8% and hope to get it down to 6.5% this year.

The IMF wanted credit expansion reduced from 30% in 1982 to 24%; the Portuguese pulled it down to 21% and hope to achieve 19% this year. The increase in money supply—M2—was spot on the IMF's target of a fall from 27.5% in 1982 to 23% last year. A target of 36% was also set for the increase in credit to the public sector. The Portuguese achieved 23%.

The one missed target has been inflation, which last year averaged 26%, above the IMF's 25% target. (The government admits, moreover, that the December on December figure was 34%.) The government blames the rise in the price of public-sector goods and services and taxes, as well as the jump in the cost of imported goods, for its failure to hold inflation on a leash. Last year's fruit and vegetable crop was partly ruined, causing food prices to rise sharply.

The thirst for imports



Steady as she rises



Even so, Mr Ernani Lopes, the Portuguese finance minister, a tall, coolly self-confident banker, exudes the satisfaction of a man who has persuaded the politicians to do as he wants, and has been more successful than he dared hope. The government does not consider that Portugal's foreign debt is anything to worry about. "The debt is not only controllable, it is controlled", a senior official told your correspondent.

For that, the Portuguese have their old monetarist miser, Antonio Salazar, to thank. While he ruled, foreign borrowing was taboo. Portugal's current long- and short-term debt of \$14.2 billion is double what it was in 1980; but the country's debt service is a still manageable \$2.5 billion a year, or 24% of exports (down from 27% last year), which is regarded by bankers as not too horrendous. Moreover, the amount of short-term debt fell from 27% to 23% of the total last year.

"We are satisfied", says the governor, Mr Jacinto Nunes, with understandable smugness from the magnificent eighteenth-century palace in the heart of Lisbon that houses the Bank of Portugal. Salazar's other bequest was the country's gold reserves, which were worth \$5.6 billion last year. "Gold is now \$380 an ounce; if it went up tomorrow, it could be equal to our debt" says Mr Nunes. Portugal also has foreign-exchange reserves of some \$450m.

The result which gives Mr Lopes most satisfaction is the taming of the budget deficit (government borrowing accounted for around half the foreign debt). This was achieved in a number of ways: food subsidies were slashed and the prices of other basic commodities were raised (to angry cries from the unions).

However, rent controls, which are largely responsible for the poor upkeep and ragged appearance of Lisbon's buildings, remain. Public-sector wages have been frozen. No new government employees are being taken on, although

some old ones are being fired.

On the revenue side, the government raised some taxes by 30% for a single year last September. A number of rather radical tax reforms are promised for the future. Vat will be brought in next year, in preparation for entry into the EEC, replacing the country's complex and inefficient purchase tax system.

Income tax is to be thoroughly overhauled over the next five years. Tax evasion, which is widespread among the middle class, will be clamped down upon. The government is also trying as hard as it can to hold public spending down, but here it faces a hard task.

The government has also wielded its pruning scissors on the nationalised industries. Subsidies to these industries have been cut. Public-transport companies are being reorganised and services cut back. The state electricity generating, wood pulp and refining monopolies have all been shaken up without too much trouble.

Another start

Portuguese industry is to feel the wind of international competition

Mr Lopes believes that his task of putting the economy right has only just begun. This month a plan of industrial reorganisation was drawn up; its purpose is to lay down the guidelines for Portuguese development until the end of the century. Mr Lopes spells out the thinking underlying the plan:

Since 1973, for a number of reasons, basically tied to the political evolution that followed the restoration of democracy and the decolonisation process, Portugal had to adjust the necessary changes in its economy to a new crucial fact: the balance of payments, traditionally in surplus until then, was undergoing a period of structural imbalance.

This situation can only be reversed through deep and lasting reforms, involving a significant change in the pattern and specialisation of the economy. The alternative to this desirable and expected evolution could only be a more or less slow process of impoverishment of the country induced by a perverted stop and go cycle, guided by the balance-of-payments evolution and the pace of external indebtedness.

The government believes that, in order to get this long-term programme off the ground, it has room for only moderate economic expansion in 1985—despite doing better than the IMF had hoped. Austerity is still the order of the day, but credit will probably be eased this summer, in order to pave the way for modest economic growth next year.

But while the economy moves slowly forward on a handbrake, the government will be revving up the engine. The most

However, investment budgets have been hit hard. Construction, which enjoyed a boom along the border regions with Spain, has virtually stagnated. The government has announced that there will be no new public-sector investment this year, although projects already begun will be completed. The losses of the nationalised industries are still high.

The government has also cut back its spending on food. The "supply fund", which dates back to the Salazar dictatorship, kept food prices very stable until now. But oil seed and corn prices were recently allowed to rise, and bread is next in line—which is risky politically at a time when real wages are falling and unemployment is high. Under EEC regulations, the public monopoly on food imports will be brought to an end when Portugal joins the community. On June 1st the monopoly on oilseed imports was eased; and private firms will also now be able to import up to 10% of Portuguese cereals and 40% of sugar.

southern Portugal, to handle increased imports.

The Portuguese are also wondering whether to take the plunge and build six nuclear-power stations in a 20-year programme. The possibilities of geothermal energy in the Azores are being explored. Further hydroelectric plants in the easily dammed valleys in the centre of the country are being considered.

Still, Portugal knows it is unlikely to cover the energy gap for the foreseeable future. It is counting instead on an increase in industrial exports to balance the national accounts. The minister of industry, Mr Veiga Simao, reckons that the private sector is now, on the whole, reasonably competitive. Many of the country's tiny, inefficient businesses (about half of Portuguese industrial workers in the 1970s were employed in firms of 10 people or less) have gone under; the rest have become more hard-headed. A surprising number of them have even imported new technology.

The private sector is, however, undercapitalised, because of the antique machinery of the country's clubbish banking system and the small size of the stock market. The high cost of borrowing—around 6% in real terms—has been another handicap for small and medium-sized enterprises. The government's failure to pay its bills during much of the 1970s made matters worse.

Labour laws also made it next to impossible to lay off workers. This was compounded by the rather romantic attitude of some employers: one leading industrialist claims that laying off workers "should never be an answer" to unprofitability. "We must see things through together, in bad times as well as good." In return many employees are continuing to work for no pay, in the hope that things will get better.



Caught in the economic vice

Banco de Portugal

Portugal: stabilisation and growth

Portugal is a small, open economy. Imports and exports account for a large share of demand and output. Imports are predominantly non-competitive, namely energy related (petroleum), food and raw materials. Exports include manufactured goods (textiles, chemicals, paper and pulp) and services (tourism).

The second oil shock, the international recession and the attempt to sustain a high level of domestic demand and employment all led to a deterioration of Portugal's external payment position. High interest rates in international markets and adverse exchange rate developments compounded the problem. In June, 1983, a stabilisation package was introduced. This included a devaluation and substantial tightening of monetary and fiscal policy. The escudo was devalued by 12 per cent in effective terms. This improved significantly the competitive position of Portugal vis à vis its main trading partners. Utility prices were increased to reduce the deficit of state-owned enterprises. Some other administered prices were allowed to rise, so as to lower subsidies and therefore the budget deficit. Taxes were raised and public spending was cut. The public sector investment programme for the second half of 1983 was frozen. Monetary expansion was kept well below that of the last few years, interest rates were increased substantially. An important part of these measures was agreed with the International Monetary Fund as part of the condition behind Portugal's request for an SDR 445 million (\$480 million) stand-by credit which was granted last October.

The economy is adjusting remarkably well to the stabilisation package. The main targets agreed with the IMF for 1983 were achieved. The external current account recorded in the 3rd quarter of last year the first quarterly surplus since 1979. For the whole of 1983 it showed a deficit below US\$1.7 billion. This is significantly below the target of US\$2 billion. External debt growth decelerated noticeably over the same period and its service burden improved. This was achieved at relatively little cost in terms of output and employment.

Public sector borrowing was cut very substantially. As a share of GNP, in 1983 the public sector borrowing requirement fell by about 1/3 of its 1982 value. For 1984 Parliament approved a new Budget in which the deficit is again substantially reduced.

The current stabilisation policies should bring the external current account to an acceptable balance within the next couple of years. The authorities are also looking at the medium and long range, however. The Portuguese Government is now implementing a programme of reforms aiming at the improvement of economic efficiency. This will allow for the strengthening of the private sector. Competition and the law of the market place will substitute for administrative and bureaucratic management. This will undoubtedly brighten the growth prospects of the Portuguese economy. A new law opened up to private capital a few important economic sectors that were hitherto a public monopoly. Private banks, both domestic and foreign, may once again be established in Portugal. A new law on competition, has recently been published. Price controls have been relaxed significantly and efforts have been made to widen and diversify the range of available financial instruments. The issuing of corporate bonds has been increased, and 1983 saw the issue of shares for the first time since 1974.

Foreign investment in Portugal is an attractive proposition. It should benefit the investor and the country. High profitability is very likely. Portugal has very good conditions to offer, namely skilled manpower at low cost, and attractive fiscal incentives. There is certainly a high growth potential in the Portuguese economy. Portugal should join the European Economic Community in the near future. This will create new and bright opportunities for investment, foreign and domestic, in the country.

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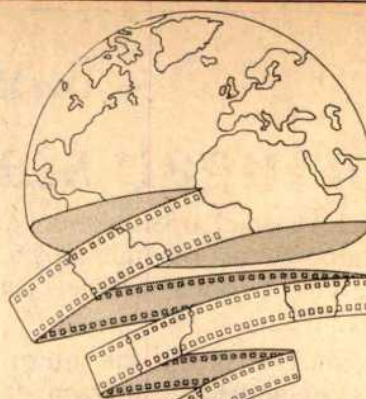
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Small is good

The heroes of Portugal's current export boom are its medium-sized and small firms. "The modernisation of the textile industry has been completed", says Mr Simao with satisfaction. It shows: textile exports were up 47% in volume in 1983. Exports of electrical machinery were up 53% in volume, chemicals up 33%, cork up 36% and footwear up 71%. Mr Simao has high hopes of a further expansion in the electrical sector (one of Portugal's most dynamic), ceramics and glass production. Food-processing and small-scale ship-repair are also, he reckons, capable of earning money from abroad.

In textiles, ceramics and glassware he insists that Portugal must rely on "original design and high quality. We cannot compete with other countries in mass production." Another area for exports that the Portuguese hope to open up is mining: a major copper plant is shortly to be developed in the south (Mr Soares has described the region as a "little Katanga"). Cadmium, tungsten and uranium are to be further developed (the uranium will come in handy if the nuclear power project goes ahead). Portugal's forests are also, in the government's view, underexploited.

The government is trying to ease the pressure on middle and small private firms in two ways: first, by loosening the restrictions on job dismissals and, second, by making it easier for them to borrow from the banks.

Last year a law was passed which allowed workers to be laid off, although the procedure is still pretty time-consuming and requires the ministry of labour's approval. Further changes are being considered. The government has placed restrictions on overtime, in order to save jobs, and wants to set up an apprenticeship programme, in order to lower the cost of training for private industry. There is a plan to streamline the strict—and strike-provoking—division of labour in the ports.

The government is also planning to clamp down on strikes while the unions are on the defensive. The employers' right to a lockout will be recognised, in certain circumstances. Picketing will be restricted; and secondary strikes banned.

Come right on in

On the banking side, a decree has been passed liberalising the system (which was nationalised in 1975). After the 1976 constitution, which prohibited denationalisation, was revised in 1981, parliament passed a bill last July allowing private banks to be set up (along with private insurance, fertiliser and cement companies). In January it was announced that

banks, both foreign-owned and domestic, could open up in Portugal provided they had a minimum of \$11m in the till.

Mr Jacinto Nunes, the governor of the Bank of Portugal, says that to start with he does not want:

A great number of private banks. Step-by-step competition is desirable: five to six banks will be allowed during the first authorisation [there are 12 state-owned banks—nine commercial and three specialised ones].

A lot of foreigners have shown interest. Three American banks, two French ones and a Belgian one are biting, while three Spanish ones are nibbling. The Bank of Tokyo and Britain's Barclays Bank are expressing polite interest. The banks will be on the wholesale, rather than the retail, side of the business.

But there will be no difference in the treatment foreign and Portuguese banks receive from the state. Mr Nunes claims that the main advantage of the banking reforms will be the introduction of modern methods into Portugal, stimulating the state banks to be more efficient.

This opening to outsiders in the banking system may provide a welcome mat for foreign investment which still—maybe because outsiders take all that shouting by Mr Cunhal and all those government crises too seriously—seems rather meagre. In 1983 new foreign investment was only \$167m, an increase of no more than \$27m over the year before. Last year American investment in Portugal, which had accounted for 23% of the total in 1982, fell behind that of France (20%), Britain and West Germany.

The EEC was responsible for more than half of foreign investment in Portugal last year, a trend which seems likely to continue as Portugal inches into the community. Banking, retailing, foreign trade and hotels were the main recipients; the year before, manufacturing had been. This switch may explain the industry minister's concern that "Portugal may be becoming the service station of Europe."

The main attraction of Portugal to

outside investors is the cost of labour, which, after the devaluation, is around a third of the European average. Productivity, however, is around half. Mr Simao points out that "Portuguese are considered good workers abroad—dedicated, capable, flexible. The problem is proper organisation." He wants more money spent on training; and, like ministers of industry all over the world, he wants students to study business, engineering and science subjects, not law and the humanities. He also says that the bureaucracy must be radically streamlined.

The feeling that Portugal has yet to get to grips with the bureaucracy in the public sector is what worries outsiders most. The June reforms are designed to tackle this: first, the nationalised industries will be carved up: "Fundamental and strategic industries should be nationalised", says the industry minister. "But why beer and cement?"

Second, he argues that industries that remain in public hands must be properly managed. Cash limits are already being imposed on government subsidies to these industries. "There must not be a promiscuity of responsibility; the administrators must be made responsible," says Mr Simao. The government wants them to be paid as much as managers in the private sector, have comparable job security and be held responsible for failures to meet production and productivity targets.

Portugal's public sector would then, the government hopes, cease to be what it became in the 1970s: a parking place for surplus labour; a handy means of raising foreign loans; and an indirect means of disguising budget deficits, because public companies took so long to pay their private suppliers. A start could then be made on reducing the \$5.3 billion owed by state industries at the end of last year. Reform of the public sector is, in the view of Portugal's present Socialist government, the key to the country's long-term economic future.

Time to co-operate

Agriculture needs all the time and help it can get from the EEC

Agriculture remains Portugal's least realised asset. The country is well endowed with sun, but not in excess, rain and fairly good soils in its heartlands and the coastal region. The soils in the south are stony, the rugged centre is good only for wood and the steep shelving country of the north largely for wine. The country should at least be self-sufficient in food.

Instead, as the minister of agriculture, Mr Soares Costa, pointed out in April, Portugal's exports pose little threat to

community producers. On the other hand, the country imports grain and oilseed and to a lesser extent milk and cheese. Moreover, consumption of milk and cheese is rising faster than production. Only in apples, wine, olive oil, and some horticultural products, like oranges and tomato paste, is Portugal a significant net exporter. But the amounts are too small, claimed Mr Costa, to worry EEC countries unduly. Indeed Italy, Portugal's main competitor, seems to have dropped



Collective fun

its objections to these products.

Instead, Mr Costa welcomes EEC entry because he hopes it will shake up Portuguese agriculture, which still employs a quarter of the population. A recent survey of Portuguese agriculture suggests that if Portugal had been a member of the community in 1981, income in the livestock sector would have been 34% less and in its crop-producing sector 6% more.

The country's agricultural inefficiency is rooted in the past: its northern estates were divided up into tiny smallholdings, many no bigger than an acre or two, as a result of the Catholic custom of sharing property equally among children. In the Alentejo region in the south, by contrast, a few absentee landlords owned large estates, some of 2,500 acres.

Both regions were farmed badly. During the 1974-75 revolution, the large estates in the south were seized by landless peasants and workers from the sun-bleached, white, one-storey villages that pepper the region; while in the north the smallholders, many just as poor, dwelling in squalid, two-room shacks, refused to hand over their land to the state.

Production in the grain-producing areas in the south fell sharply, to even lower levels than under the old landowners: the collectives were poorly run and gobbled up agricultural credits. Successive governments sought to return a part of the old land—a *reserva* of around 100 acres—to those former owners who wanted to come back and to break up the collectives, which were now monster farms of 17,000-20,000 acres.

Of the 600 collective farms in existence at the height of the revolution, only 350 survive today. The land is being leased to individual farmers by the government

while a law to speed up the break-up of the collectives is being considered. Some 50,000 jobs have been lost in the Alentejo over the past five years.

The problem of farming in the north is more intractable. "We need to improve the size of the properties there—but not by coercion", says Mr Costa. Three main methods of persuasion are being employed. First, loans are being made more easily available to those who want to buy land to increase the size of their farms.

Second, a law is being pushed through so as to make it impossible to pass on land, when a farmer dies, in units that are too small. Credits exist to allow inheriting sons to buy their brothers and sisters out. Third, credits are available to help farmers swap fields they own that, because of the fragmentation of inheritance, are dot-

ted around the countryside, for fields grouped together.

In addition, Portugal's co-operatives are gaining ground in the north and centre of the country. The co-operatives, unlike the collectives, are voluntary and respect private ownership of the land. They permit farmers to share machinery, pesticides, fertilisers and animal feeds.

The co-operative system was first introduced in Portugal's vineyards, but it has spread to milk, olive oil, fruit and dairy production. There are now 980 such co-operatives, and some 190 credit co-operatives, which act as small agricultural banks. There is still a shortage of credit for the co-operatives, however.

Portugal needs investment also to provide proper agricultural marketing and packaging. This extends right down to ordinary markets. Lisbon, for example, needs a new market for horticultural products, while the one in Oporto needs expanding. EEC regulations will compel the Portuguese to reclassify their wines and to upgrade their vineyards to EEC standards, closing down low quality ones. The country's fine Dao wines and its splendidly invigorating, slightly sparkling *vinho verde* (young wine) will be subjected to EEC regulations. Port will be spared, which may be just as well.

The government is mightily relieved at having negotiated a five-to-seven year transition period for EEC entry, during which it hopes that European credits will become available to raise farming standards. If Portugal's agricultural competitiveness does not improve sharply, there is a danger that it will become a dumping-ground for the community's dairy surpluses; and this may not be offset by increased exports of Mediterranean products.

Wanderer returns

Portugal has rediscovered Europe

Portugal, barring an extraordinary misfortune, will be joining the political institutions of the EEC as its eleventh member in January, 1986. Negotiations are due to be concluded by the end of September. A few loose ends in agriculture and fishing remain to be tidied up. The more troublesome issue of migrant labour is still being haggled over.

The main points at issue in the talks are: Luxembourg's refusal to take Portuguese workers; whether or not members of the family of a migrant worker can take jobs in the host country; and whether emigrant remittances are subject to the tax and banking laws of the country of origin. The French say remittances should be governed by the laws of the

country the emigrants work in.

Portugal's budgetary arrangements have been left until last, because they could not be settled until the rest of the package was complete. The Portuguese are confident that the poorest country in the EEC will not be a net contributor to the community—as seemed probable at first under the community's extraordinary budgetary arrangements.

The Portuguese wondered at first what they would obtain from EEC entry, and are now getting the rather surprising reply: quite a lot. The main thing the EEC is doing is adding its seal of approval to their democracy: the EEC is a democrats-only club, and Portuguese entry would not be acceptable unless the Euro-

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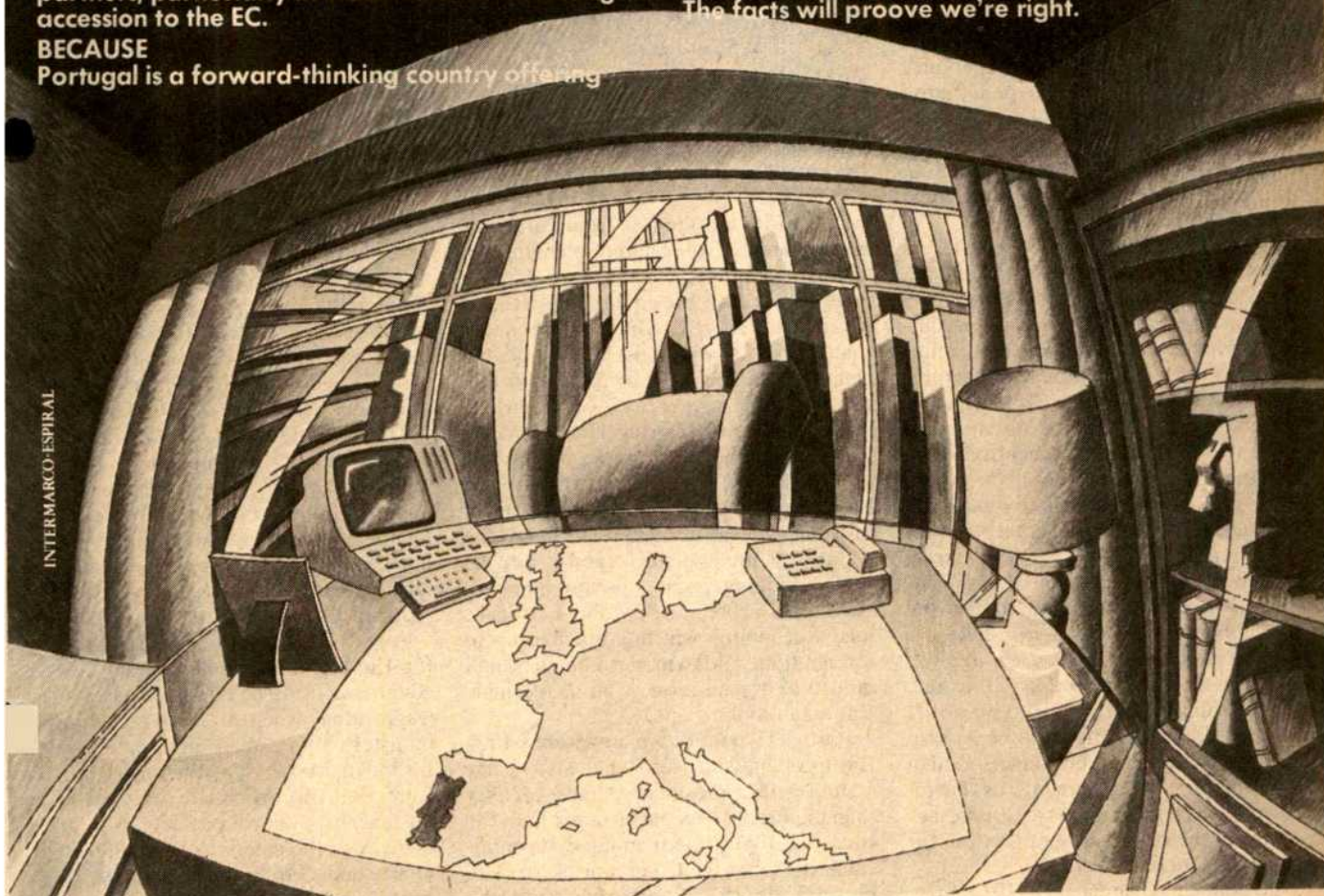
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peans felt the country was safely past the point of no return to dictatorship. When Portugal is in the EEC, moreover, it will be more difficult for potential plotters to stage a coup, because the country would have to leave the community if they got away with one.

The Portuguese also barely conceal their hope that EEC competition will shake up their inefficient agriculture and the public-sector industries, although they are confident of holding their own in industrial exports to the EEC. Two thirds of these already go to the community.

The Portuguese also hope to lure in European investment when EEC countries realise just how favourable conditions are: wage rates are low; Portugal is well placed as a jumping-off point for trade with west Africa and the south Atlantic. And its ex-colonial experience makes it suited for European penetration of Brazil, Angola, Mozambique, Indonesia and, through Macao, South China (the deputy prime minister, Mr Carlos Mota Pinto, had a surprisingly warm welcome to Peking in April).

The foreign investment code reserves for the state a monopoly in the postal, transport, telecommunications and electricity services. Joint ventures are permitted with state companies in steel, refining, chemicals and arms manufacture. The rest is open to outsiders, who are allowed to send their profits abroad easily and benefit from local tax incentives.

Portugal also hopes for loans from the European Investment Bank to modernise its small and medium-sized enterprises, as well as around \$300m-\$400m a year in regional aid and some \$100m in social aid. Whether it gets the regional aid depends on whether Portugal can negotiate, as richer Ireland has, less-favoured-area status for the whole of the country. Privately many Portuguese believe that one of the main benefits of the EEC will be a sharp increase in workers' remittances and a sharp fall in unemployment, as Portuguese workers flood abroad to take advantage of the community's provision for free movement of labour.

The political advantages of EEC entry, which is popular in Portugal, are not lost on the prime minister. Mr Soares has recently been indulging in his favourite recreation—hobnobbing with European leaders of any political ilk. The first to come this year was the French prime minister, Mr Pierre Mauroy; next came Mr Helmut Kohl, the West German chancellor; Mrs Thatcher followed him, pledging Britain's support for Portuguese entry (she was pleasantly surprised by the way the Socialist Mr Soares seems to have taken a leaf or two out of her economic policies).

Italy's Mr Bettino Craxi, the prime



The other dimension: Soares greets the two Bothas

minister with most to lose from Portugal's entry, came a week later, pledging his country's support. Mr Soares is likely to meet the French president, Mr François Mitterrand, shortly. Mr Soares believes that EEC entry will boost his presidential chances next year. It will be a fitting climax to his career to have been the leader that steered Portugal into Europe.

He, and other Portuguese democrats, are sincere in their determination to see Portugal turn its back on its old African mission, which ultimately drained the country of money and turned it into an inward-looking, self-conscious appendage of Europe. After all, Portugal's mixed economy, which is opening up to foreign trade and to modern financial and industrial organisation, is an increasingly European-looking one.

Portugal's politics are a mixture with a European flavour: an Italian-style party system with a presidency that is weaker than the French one but stronger than the Italian and West German ones. Its political parties, bar the Communists, are well plugged into the European circuit (the Centre Democrats to European Conservatives and Christian Democrats; the Social Democrats to European Liberal parties; and the Socialists to the Socialist International).

Portugal, for a small country, will be a big asset to Europe. Its informal, quick-witted, unpretentious people (blue jeans are a uniform in Lisbon, not just because they are cheap), with their remarkable lack of national or racial prejudice, should blend easily into a multinational community. Portugal's rather cynical, world-weary literature (which is in marked contrast to the picaresque-primi-

tive Spanish style) may find greater currency in Europe.

The Portuguese language is spoken by 150m people around the world, so Europeans grumbling about the cost of translating yet another community language should count themselves lucky instead that their frontiers are expanding. Portugal's excellent, ungreasy food and undocored wines may become known to many more Europeans, as may Lisbon's up-and-down alleys of colourful, tiled eighteenth-century houses, the country's tranquil shelving hill country in the north, and the grasslands, bedecked with half-stripped cork trees, in the south.

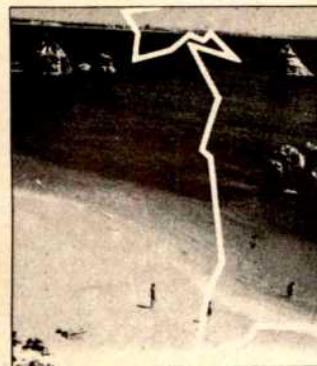
Above all, Portugal will be a gateway for Europe to a number of developing countries. Portugal's political usefulness was evident when South Africa's prime minister, Mr P. W. Botha, called in o. Lisbon on May 29th on the first stop of his European trip. Mr Soares did not allow his Socialist political convictions to get in the way of the meeting, at which he tried to persuade Mr Botha of the need for a speedy settlement in Namibia.

As it happens, Portugal is well placed to provide brokerage services. Both President Eanes and Mr Soares have long quietly urged the Marxist governments of Angola and Mozambique to inch towards accommodation with South Africa. The Portuguese government has also urged the Angolans to expand their trade with the west.

So, Europe may find that the cost of helping its poorest relation to its economic feet is a cheap one for what it brings in the way of charm and contacts. For Portugal, the main benefit of EEC entry is at last to be able to say *adeus, Salazar*.

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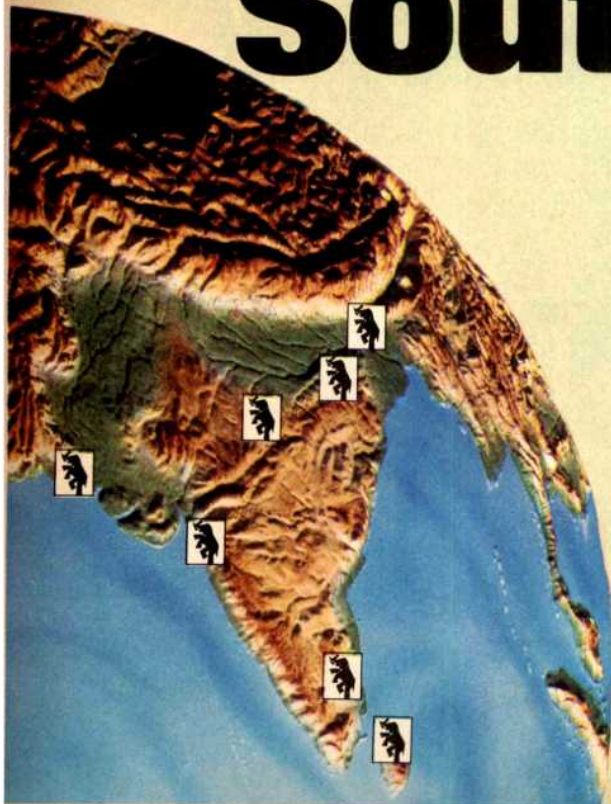


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BRITAIN

Pile 'em high and sell 'em cheap

Investors were willing this week to subscribe for only about 65% of Enterprise Oil, the government's latest privatisation candidate. And the offers for 49% came from just one source, the minerals conglomerate Rio Tinto-Zinc. Underwriters took the rest, so the government will get its money. But ministers are furious, none more than the energy secretary, Mr Peter Walker, who had from the start resisted big individual bidders for Enterprise like RTZ. The government's hopes of widening share ownership through privatisation now ride on British Telecom.

Enterprise, a nice name for the North Sea oil fields wrested from the British Gas Corporation, was priced at 185p minimum per share, for a grand total of £392m. Since the North Sea looks rather safer than the Gulf, ministers expected the offer to be snapped up. But a worried oil market and rising interest rates once again frustrated the pricers of the issue. Going through the City because it was discouraged from making a direct bid, RTZ quietly made a

fool of the government.

So now what price the treasury's expectations for the sale of British Rail's cross-Channel Sealink services, or Jaguar, British Airways, the British Airports Authority and the warship yards of British Shipbuilders? And, in particular, what price British Telecom—whose 51% disposal is still slotted in for November at a mammoth £4 billion?

In February's public expenditure white paper, the treasury pencilled in only £1.9 billion for 1984-85 in "special sales of assets", followed by £2 billion in each of the next two years. At the time that looked easily achievable: sell BT in two (or, more likely, three) calls. The first BT call would provide around £1.3 billion; the remaining £600m needed would come from a permutation of British Airways, Enterprise Oil, and more sales of government equity in British Aerospace and British Petroleum. Add in Jaguar (up to £280m?) and BL's Unipart spares division, and the £600m target looked a cinch.

That sort of arithmetic comes unstuck once markets take fright. If one sale like Enterprise goes badly, the next may be pitched low by the government to attract buyers—who may then demand cut prices for the next sale, and so on. Cheap sales will still raise enough for the government to cut its borrowing requirement, but is it politically sensible to sell assets for less than its advisers—and the opposition—say they are worth?

What worries the government is that its



Rio Tinto-Zonked

privatisation problems go well beyond the Enterprise affair. Just the day before, the Conservative-run trade and industry select committee had criticised the intended hiving-off of Jaguar from BL on the grounds that it will needlessly cheapen BL's eventual privatisation. Meanwhile, British Rail is quarrelling with potential buyers of Sealink over how long it should guarantee harbour facilities to a new owner; and Inmos (see box) is making

Plucky little Inmos

When he tries hard, Mr Norman Tebbit can be very boring. He earned the Boycott award for parliamentary stonewalling last week during an opposition debate on the state-backed microchip company, Inmos. Options were still being reviewed, etc, etc. But, as usual when ministers are stonewalling, there is furious activity behind the scenes.

To the opposition, Inmos is the plucky little chipmaker bearing the British standard in this key technology, and proof of the wisdom of the Callaghan government's industrial intervention that launched the company. This year its sales will double again, to some £100m, and it will make its first pre-tax profit, probably over £5m, after losses since it started in 1978. To the prime minister, Inmos is just another state-owned business that should be kicked into the private sector. But how?

A stock-market flotation is not on just yet, because of the fragility of the

company's record. Yet the government is in a hurry to do something. American Telephone and Telegraph (AT&T) has offered a mere £50m for Inmos, but wants only its new chip factories in Wales and Colorado. Such a sale would cause a political storm, as processions of innocent politicians bewailed the loss of a British presence in a key technology. So Whitehall has been trying to cook up a deal to save the Bristol design centre, which the Americans would drop, by grafting it on to ICL, the British computer company that was rescued by government loan guarantees. The designers in Bristol don't want to quit entrepreneurial Inmos for bureaucratic old ICL.

Inmos and its official minders in the British Technology Group planned to raise some cash from City investors and an American electronics company last month. Whitehall threw out this idea because the state (which now holds 75%

of the shares, having put up £100m in cash and guarantees) would have lost voting control over Inmos, while still being financially responsible. The company would not have been off the government's borrowing requirement.

Then Thorn-EMI offered £10m for about 10% of Inmos. That would put a theoretical value of £100m on the whole company, double the (real) AT&T bid. Inmos and the BTG like this offer: it is British; it would make a stockmarket float easier later on; and Inmos would remain independent, though buttressed by a respectable electronics company. The two hope to find another British company to line up with Thorn for another £10m. Financial investors might also join the bid.

The Thatcher government seems unlikely to buy any such deal, unless the private sector takes a majority stake. Ministers do not want another variation of the aborted private placement which would still leave them carrying the financial can without retaining effective control.

BRITAIN

trouble by looking for British buyers rather than Americans.

This cocktail could give headaches to a lot of people. The transport secretary, Mr Nicholas Ridley, has to cope with Sealink, British Airways and the British Airports Authority; the first is cursed by bad management and a recalcitrant union, while the others are hostage both to a review of civil aviation and to the sale of BT, which threatens to soak up available private-sector funds. Mr Tebbit was rebuffed by his cabinet colleagues over Jaguar (he wanted BL to keep a 25% stake in the company) and risks worse if the BT sales goes awry. Mr Nigel Lawson has unhappy memories of the Amersham give-away that he presided over as energy secretary, though he drew private satisfaction from seeing underwriters pay him more than the market was willing to for Britoil. As Mr Walker could with Enterprise.

The economy

Signs of frost

Britain's economic upturn has so far been too weak to do more than slow the rise in unemployment, yet it may already be faltering. At present, output is depressed by the miners' strike, which will significantly reduce gdp for the year as a whole even if it is settled immediately. More worryingly, a range of newly published statistics, untainted by the Scargill factor, all point to an underlying hesitation in the recovery.

In 1983, coal output accounted for 3.6% of total industrial production, and 1.3% of gdp. Knock-on effects in other industries mean that the potential loss of output is higher. For the time being, the strike is not fully effective—recent estimates say that coal production is down 70%, and the repercussions have been limited to a fall of around 10% in steel production. Together these losses add up to a possible drop in gdp of around 1.1% in the second quarter of the year. If the strike lasts, mounting industrial dislocation could mean no rise at all in Britain's real gdp during this year.

The coal strike began in mid-March (following an overtime ban) and therefore had little effect on output in the first three months of the year. Yet there was very little growth in the output measure of gdp between the fourth quarter of 1983 and the first quarter of 1984 (see chart). Manufacturing output (which excludes mining) increased by only 0.4% in the first quarter, compared with 2.2% and 1.1% in the last two quarters of 1983.

Recent gdp figures are harder to interpret than usual because of the growing

divergence between the three different measures—output-based, income-based, and expenditure-based. The treasury favours an average of the three (also shown in the chart), according to which growth between 1982 and 1983 was 3.2%, and growth in the first quarter of 1984 a respectable 0.9%.

The averaging method seems reasonable enough, but the National Institute for Economic and Social Research (Niesr) has argued that the output-based measure is not only more reliable than the income and expenditure measures, which everybody knew, but more reliable than the average measure, which is surprising. So Niesr says that growth last year was only 2.5%; a figure easier to reconcile with the continued rise of unemployment which Whitehall finds so perplexing.

There are two other recent signs of slowdown:

● **The CBI trends survey.** The new survey, conducted between June 1st and 20th, reported that 29% of firms planned to increase output in the next four months, and 10% to cut back. That positive balance of 19% is the lowest since last October, and compares with balances of 30% in February and 32% in March. Although 20% of firms now say that their advance orders are better than normal, 28% say they are worse.

● **Cyclical indicators.** The central statistical office publishes a monthly series of indicators designed to predict turning-points in economic activity. The longer leading indicator aims to give warning about changes a year ahead, and the shorter one about changes six months ahead. After months of continuous increase, new figures for both series show falls—reflecting lower share prices, higher interest rates, slower growth in consumer credit and declining sales of new cars.

Treasury officials hope that this pause simply marks a change in the pattern of

recovery, as the consumer boom which had driven it so far fizzles out, and investment and exports take up the running. The Bank of England, in its new economic commentary published this week, supports the idea. Consumer spending, it says, fell by 1.3% in real terms in the first quarter, a sharper drop than its economists expected. But investment has improved, growing by 8% from a very low base.

Export prospects, however, are still rather grey. Non-oil exports increased by 0.8% in volume in the first quarter, compared with an increase of 0.3% in non-oil imports. But monthly figures have been extremely volatile, and, adding to the confusion, May's trade deficit of £319m is distorted by around £200m of extra oil imports due to the miners' strike. It is too soon to cheer an export-led phase of growth.

The balance of evidence is in favour of a slower rather than a faster recovery. Most economists expect inflation to be at least a little higher than the treasury's target of 4½% by the end of the year. Higher inflation usually encourages people to save more, and that would aggravate the recent sagging of consumer demand. The chancellor is worried because any attempt to bring inflation back on track through higher interest rates might halt the upturn in investment and, by raising the value of sterling, damage the competitiveness of Britain's exports as well.

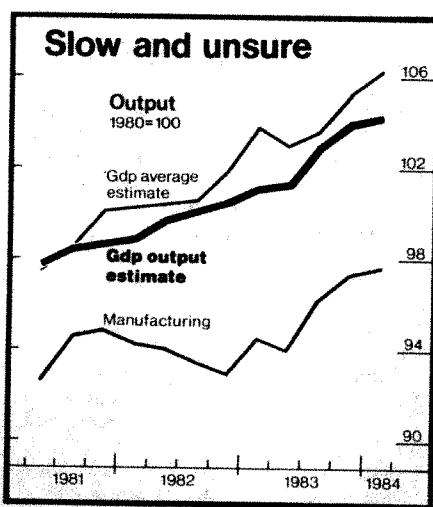
Telecoms

Mercury gets wings

Two pieces of good news for those who think that liberalising telecommunications is important for modern Britain—but one of them could yet turn sour.

The one that won't concerns the terms on which British Telecom (BT) will interconnect with competing systems. If the terms were too strict, BT, which will remain a giant when privatised, would be able to freeze out competitors. The only competitor so far is Mercury Communications, formed two years ago by Barclays Merchant Bank (which has since left the consortium), Cable and Wireless, and British Petroleum. This week BT received its new telecommunications licence, just after it concluded negotiations with Mercury on interconnection. The licence speaks only in general terms, but the details of the negotiations (still, as yet, confidential) will give Mercury almost all it wanted.

The key point was whether BT could levy an additional interconnection fee over and above the normal fee for using



Source: CSO

Getting Britain off the heroin hook

"Aaaargh!" is not a helpful response to social problems. The interdepartmental group on drug abuse announced by the home secretary, Mr Leon Brittan, on June 28th may amount only to an "um", but it is a more useful noise than the recent panicky ones that have been bursting out all over the media.

The number of drug addicts in Britain is growing fast. The home office knew of 10,271 in 1983, up 29% from the previous year. The number of newly notified addicts jumped from 2,793 in 1982 to 4,200 last year. Multiply by something between 4 and 10, depending which research you believe, to get the true figures. Heroin now accounts for around three quarters of all addicts, and its share of the damage is increasing.

It is easy to call for "concerted action", but difficult to take it. Drug addiction involves not just doctors but a clutch of government departments, law enforcement agencies and international intelligence. Individual moves by one department inevitably look like feeble stabs at a many-headed monster. These are some of the heads:

● **Imports.** The home office and customs and excise run all sorts of high-flying schemes at home and around the globe to stop drugs getting into Britain. A customs officer has recently been posted in Pakistan, the source of over 80% of Britain's heroin, to work with intelligence officers there. A policeman has been despatched to Holland, the main European centre for drug distribution. The ranks of customs and excise investigations officers dealing with heroin have been boosted by 60. Dramatic customs hauls are seldom lucky breaks: the £6m find of heroin on a ship in Felixstowe on June 6th was the result of a month-long intelligence-gathering operation. But estimates based on the number of addicts and their likely average consumption suggest that over 3,500 kilograms of heroin must have entered Britain last year. Customs and excise nabbed only 201 kilos.

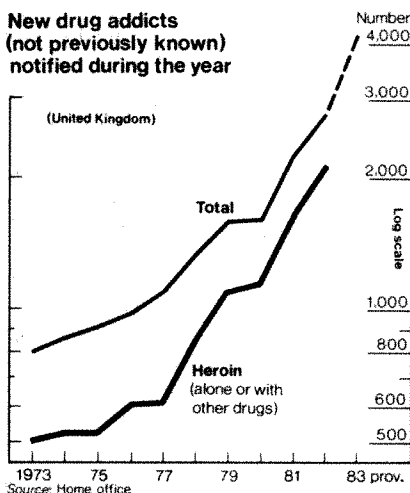
● **Dealers.** The London police say that 23% of their targeted criminals are now involved with drugs. Most street-level dealers are addicts, but they get their drugs from non-addicts, many of them old-time criminals who would have stuck to armed robbery 10 years ago. There

have recently been real advances towards tougher sentencing. The maximum for drug trafficking is 14 years, and the lord chief justice has suggested that sentences should be close to the maximum. Mr Brittan intends to strengthen the courts' power to take away criminals' assets. Drug dealers are a chief target of this proposal.

● **Users.** On June 28th, the home office published a new report on the misuse of drugs, and how to prevent it. Professionals are determined to avoid the shock-horror approach used against smoking and drinking. They fear that heroin slide-shows and the like could actually whet the appetite instead of putting young people off.

Nobody is sure how addiction begins. If you take heroin every day for a week, you could be in trouble, but intermittent users, who may smoke the drug at a party, could take several months to be-

New drug addicts (not previously known) notified during the year



come physically dependent. A crisis, or maybe just a bad day, can turn a casual user into a junkie.

● **Treatment and rehabilitation.** Most new addicts are recruited by existing ones. Get one hardened junkie off the hook, and you may have saved several teenagers too. The department of health has asked health authorities for an account of their local drugs problem, and their plans for tackling it. The department has earmarked £6m for treatment and rehabilitation projects in both the

public and voluntary sectors; not an enormous sum, but it is the first central funding since responsibility for treatment centres passed to health authorities in 1975.

The treatment network needs a radical overhaul. It dates from the 1960s, when the worry was a black market fuelled not by illegal imports, but by diversion from legal supplies. A very few doctors—some of them junkies, some well-meaning fools, some crooks—overprescribed and thus allowed addicts to sell part of their supply; supplies from this source were bumped up by thefts from pharmacies, and the number of addicts grew. Hospital-based drug treatment centres were set up in 1968 to take treatment out of the hands of general practitioners. The notion was that they would give a regular supply of drugs until the addict was ready to kick the habit. This, it was hoped, would prevent the development of a market for imports.

It did not. Soon after the new centres opened, illegal imports began to trickle in, at first mainly for Britain's Chinese community. By the early 1970s, some was finding its way to British addicts. The drug treatment centres were never established on the scale originally intended. Today, with around 100 beds and room for maybe 2,000 outpatients, they are quite inadequate.

In 1975, treatment centres decided to stop prescribing heroin. They switched to a substitute, methadone. But the buzz of methadone is not the same, and many addicts turned back to the now booming black market in heroin for their preferred kicks.

Because treatment centres are unable to cope with the growing bands of heroin addicts, general practitioners, your ordinary family doctors, are once again having to play a part. They are now the main source of notification to the home office. Most doctors have neither the will nor the know-how to deal with heroin addicts, who are very awkward patients. Links between GPs and specialists in the field are poor. GPs may prescribe heroin to addicts only if they have a licence from the home secretary; only 160 of them do, and all but a handful are in the drug treatment centres. Curing—or at least maintaining on regular doses—the hardcore junkies would spoil much of the market for the dealers. That cannot be achieved without a better informed medical profession.

its network. It looks as if Mercury has won that battle. Its customers will now be able to hop on to the BT network for the price of a telephone call, and then transfer to Mercury's own system.

The deal makes Mercury much more attractive to Pacific Telesis, the American west coast result of the AT&T break-up, which has been interested in Britain's new regime for some months. Telesis has

plans for a stake of 25-33% in Mercury, and is anxious to inject some of its own management into the new operation—it seconded some of its people to Mercury to help work out the interconnect agreement. The government is keen on the Californians. At a recent meeting with the industry secretary Mr Norman Tebbit, the Telesis boss Mr Don Guinn sweet-talked him into believing that the

Californians were no longer the black sheep of old Ma Bell's family.

Any deal would have to be approved by the regulatory authorities in America. But Telesis expects no difficulty from Judge Harold Greene, who has supervised the break-up of AT&T, and is expected to rule shortly that the resultant regional companies can compete in international markets.

Telesis might make sense for Mercury. Cable and Wireless has expertise in international communications and the third world. Telesis has run a huge domestic telephone system, and that experience would improve the mix of products that Mercury might develop. But despite the advantages, the deal, talked about for two months, has still not happened, and it is not clear why. Is Telesis regarded as an outsider which will dominate the new operation? Does Cable and Wireless fear that one American deal would inhibit others or (despite the denials of Telesis) that it itself and not Mercury is the ultimate target?

Miners' strike

Drifting, not working

The coal board this week was gamely trying to boost the so-called drift back to work of miners, pointing out that by Wednesday there were 2,500 more of them on the job than at the end of last week. This was a thin response to a weekend propaganda blitz, when the coal board chairman sent a "come-back" letter to individual miners, and the prime minister backed him with a speech for the Sunday papers. Senior cabinet ministers involved in the dispute were disappointed, but not surprised: they no longer expect miners in areas where the strike is nearly total to cross the picket lines.

Ministers accept that they are now taking some political stick for not doing

the traditional thing of settling the strike through fudge. They are still waiting for Mr Scargill—whose success in keeping up the momentum surprises them—to be overruled by his executive, and forced to call a ballot. The government reckons that might go against the strike.

The Labour party is no happier than the government. It is rattled that pickets' violence on the nightly news bulletins is overshadowing pictures of anything else, but it feels it must cuddle closer to the strikers. On Wednesday the party's national executive agreed to team up with the miners' union to put the case for a national energy policy—presumably a Scargillite version that involves closing no pits. A keen Mr Tony Benn or an embarrassed Mr Roy Hattersley waffling on about energy policy is hardly likely to grab the headlines away from the pickets and the violence. At the coal board's area office in Doncaster this week 17 miners were arrested after office workers were attacked by pickets.

On Wednesday's proclaimed day of action, wider support for the miners was less than wholehearted. Well over 10,000 miners and their join-a-mob supporters—including their faithful members of parliament, Mr Tony Benn, Mr Michael Meacher and Mr Dennis Skinner—marched (peacefully) from the Tower of London. The rail unions staged a one-day strike against south-eastern commuters to show how strongly they backed the miners. The answer was not very.

The rail strike, and the intermittent blocking of coal and ore trains, looked more symbolic than determined. The national union of railwaymen's conference

at Llandudno puffed a steady blast of hot air about railwaymen's full support for the miners. But the coal board claimed on Wednesday that its coal trains in the Midlands were all moving again, after some disruption earlier around the Shirebrook depot in Nottinghamshire.

In south Wales, however, railwaymen did completely stop ore trains for the Llanwern steelworks on Wednesday. The local members of the steelworkers' union said that they would co-operate with management in all means to shift coal and ore and keep the plant producing. They can't do this if the ore trains don't run. Iron ore can be moved only by rail—it is too bulky for lorries—from Port Talbot where it arrives from overseas.

The local steelmen were really signalling to their national leader, Mr Bill Sirs, that they do not want any national deals with the miners to damp down steel furnaces. Mr Sirs withdrew his plan to put the issue of steel union support through the Trades Union Congress, and was due to meet the miners' union leaders on Friday, June 29th. The British Steel boss, Mr Robert Haslam, was awaiting the outcome of this meeting before deciding whether to bring an injunction against the rail unions.

Architecture

Palumbo's pile

Glass stump, up-ended shoe-box, dreary high-rise—there seems no limit to the posthumous abuse being heaped on the architect Mies van der Rohe, as a project purportedly by him stumbles to apparently inevitable defeat before a planning inquiry in the City of London this month. The tower, which bears a strong likeness to Mies's Seagram building in New York, is part of a new square proposed by the property developer Mr Peter Palumbo for a site immediately west of the Mansion House and opposite the Bank of England.

Mr Palumbo has been having a dreadful time from his critics. In addition to a predictable raft of amenity groups, these include both the left-wing Greater London Council and the right-wing City Corporation, who refused him planning permission to demolish listed buildings on the site. The inquiry is into Mr Palumbo's appeal against the refusal. Architectural historians, writers and building and planning experts have been jostling for the pleasure of excoriating what is being presented, on both sides, as the last of a dying breed, a Modern Movement steel and glass tower, style of the 1960s.

Mr Palumbo's first major discomfiture was an attack on the building by the Prince of Wales. Addressing the Royal



The ore that Llanwern didn't get

Institute of British Architects last month, the prince dismissed the tower as a "giant glass stump, better suited to down-town Chicago than the City of London". The prince subsequently wrote to Mr Palumbo explaining his opposition and urging Mr Palumbo to withdraw the appeal. In the past week, other difficulties have arisen. One critic, the architectural historian Mr John Harris, questioned whether the tower was by Mies at all. The latter died in 1969, and the project is now the work of the job architect, Mr Peter Carter. Mr Harris challenged Mr Palumbo's counsel, Mr Peter Boydell, QC, to produce a signed drawing, a letter or any documentation which might indicate Mies's authorship of the project. This has not happened.

Another historian, Professor Russell Hitchcock, had entered evidence on behalf of the Victorian Society, concluding at, at best, Mies had been involved only in "preliminary" work on the tower. The inquiry heard that he had later been approached at his New York home by representatives of Mr Palumbo and invited, with hints of court action, to withdraw this suggestion. He refused.

This revelation, which visibly embarrassed the respectable Mr Boydell, was particularly awkward for Mr Palumbo. He has based his case primarily on his building not being just another tower added to the London skyline but a great and original work of art. Many of his witnesses have been elderly followers of the master who have argued that "London must have a Mies". What if the tower is not by Mies at all?

Indeed, what if it is? Critics have been quick to point out that any work of art so hard to distinguish from others like it is hard to describe as original. A letter from Mies's well-known collaborator, Mr Phil-

Johnson, was read out to the inquiry this week, which derided the tower as a "posthumous and unimportant piece of architecture... one of many sons of Seagram". It also pointed out that the essence of the Seagram building is the rectangular space in front of it. The Mansion House square tower would face an irregular square and a traffic junction. Mies, said Johnson, "deserved better monuments".

Among the project's critics have been the conservative group, Save Britain's Heritage, who commissioned an alternative scheme for the site by a modern British architect, Mr Terry Farrell. Save argued that modern architecture has now left Mies far behind. It is contextual and sensitive to urban history. Mr Farrell's scheme retains the existing facades and street lines, including the well-known Mappin and Webb pavilion block which for the past century has gazed down on



Did Mies really design it?

the famous Bank interchange. One of Mr Palumbo's witnesses admitted that conservation would be a cheaper and more profitable option than the Mies tower. Since to obtain the right of demolition in a conservation area, Mr Palumbo must show that he has searched for—and failed to find—other ways of reusing the existing historic buildings on the site, this amounted to a spectacular own goal.

After the inquiry reports, the decision will rest with the environment secretary, Mr Patrick Jenkin. Mr Palumbo has gone to remarkable and costly lengths to push his case: seldom has an inquiry been so swamped with counsel, solicitors and experts. But as things stood this week, it looked as if he would have done better to take Prince Charles's advice.

Countryside

Too precious to be left to farmers

The day of countryside conservation may have begun to dawn. It now looks as if the government is prepared to use the stick of planning controls rather than the carrot of management agreements on farmers who want to damage the more sensitive of Britain's agricultural landscapes.

Under the 1981 Wildlife and Countryside act, farmers can be offered management agreements with large compensation for not undertaking agricultural operations to which environmentalists object. There has been a long battle over the Broadland marshes in Norfolk, the largest area of wet land left in Britain. The Broads Authority has been trying to

persuade local farmers to accept management agreements with compensation for not draining and ploughing up the grazing marshes and converting them to cereal growing. Despite these generous offers the local farmers, egged on by the National Farmers Union, have generally said no.

Now one of them, dismissing management agreements as "not worth the paper they are written on", and declaring his intention of draining 100 acres of the Norfolk Broads, has provoked the environment secretary, Mr Patrick Jenkin, into using reserve planning powers that he has and, in this instance, revoking the exemption from planning controls which agricultural land has for decades enjoyed. The farmer will now have to apply to the local authority for planning permission to drain his land.

If it is refused he will still be entitled to compensation. But instead of an annual index-linked figure to reflect the loss of profit from not growing cereals he would only get a once-and-for-all sum representing the difference in the value of his land before and after drainage, after allowing for the cost of the drainage operations.

The powers used by Mr Jenkin have existed for many years but have seldom been used. Originally intended to prevent the erection of shacks on allotments, they can only be used to prevent drainage as an "engineering operation". So, even now, the Norfolk farmer could legally plough up his marshlands.

Mr Jenkin's action sparked off a major interdepartmental row with the agriculture minister, Mr Michael Jopling, who tried and failed to veto his use of the planning powers. However, it is clear that Conservatives are beginning to take the politics of the countryside seriously.

In Mr William Waldegrave, the junior environment minister, the conservationists have a reasonable high-flier as their champion. More important, Mrs Thatcher herself has taken an interest. She has long been suspicious of farmers' privileges and motives, but while Mr Peter Walker was agriculture minister they had an unsackable advocate. Despite the pleas of Lord Whitelaw, the only remaining landed magnate (although not the only farmer) in the cabinet, instructions have gone from Downing Street for a review of the adequacy of the 1981 Wildlife and Countryside act.

This week the chairmen of both the Nature Conservancy Council and the Countryside Commission launched packages of fresh policies to protect the countryside and its flora and fauna. Sir Derek Barber, the Countryside Commission chairman, said it would offer new grants to persuade farmers to preserve hedges and dig ponds. It wants parish councils to record local landscape features. Mr Wil-

liam Wilkinson, the NCC chairman, called for a cut of £300m in farmers' capital grants, saying "we cannot agree to more land being brought into cultivation or cultivation in the lower grades of land

being intensified".

Both Sir Derek and Mr Wilkinson may be saying the right thing at the right time. Mr Jenkin foreshadowed changes when he told conservationists in London on

Tuesday, "A minuscule part of the sums of money that go to the support of agriculture and forestry diverted to the ends of conservation would work wonders".

By heresies distress

Is the Church of England, by law established, a Christian church at all? That startling question is beginning to gnaw at some of its humbler members.

The immediate cause of their dismay is the consecration next week of the Rev. David Jenkins, professor of theology at Leeds University, as Bishop of Durham. Mr Jenkins, like any other member of his church, affirms, every time he takes communion, his belief—in the 1662 Prayer Book version of the Nicene Creed printed here, or the more modern but no weaker translation of the 1980 Alternative Service Book—that Jesus Christ was both God and man, born of the Virgin Mary, crucified and on the third day risen again. He will affirm all this again, black on white, the day he is consecrated. But how far does he believe it?

Mr Jenkins, appearing on the television programme "Credo", two months ago, made it plain—he thought and thinks, but others differed—that he indeed believes in the resurrection of Jesus; and plainer still that he had considerable doubts about the virgin birth, "a story told after the event to express and symbolise a faith that Jesus was a unique event from God". Parts of the church exploded in uproar. He should not be consecrated as Bishop of Durham, wrote one evangelical church newspaper, and several thousand signatures go with the petition to the same effect which the Archbishop of York will receive, and reject, this Sunday.

Why stick at Mr Jenkins? He proclaims the most fundamental Christian belief of all, that "Jesus was truly God and truly man", as he put it in a statement intended to calm the controversy. Yet he also believes that one may be a Christian and not agree. And when "Credo" asked other diocesan bishops what they thought, it revealed that Mr Jenkins was far from alone: it found 11 bishops who thought a Christian must hold this belief, but 19 who—whatever their own views—thought not. One could, it seemed, be a Christian and regard Jesus as no more than God's supremely inspired agent on earth.

Much modern theology tends to the same view, one particularly attractive to the small but widening number of Christians eager for dialogue with other faiths, Marxism not excluded. It is much simpler than the traditional view, more reasonable, not to add rational, much easier to believe. Indeed, it takes no years of theological study to arrive at. Any deist, with appropriate bows to

Moses, Mohammad, and, why not, Gautama Buddha, could reach the same conclusion in five minutes.

And that, simple Church of England parishioners suspect, is one good reason to doubt it. Christianity is not just deism. If their bishops talk as if it were (even if, as the television researchers found, it may be from good pastoral fear of frightening the half-believer away), perhaps it is the bishops who are mistaken, not the little old ladies in the pew.

Church of England leaders have a habit of flustering their flock. There was

I BELIEVE in one God the Father Almighty, Maker of heaven and earth, And of all things visible and invisible : And in one Lord Jesus Christ, the only-begotten Son of God, Begotten of his Father before all worlds, God of God, Light of Light, Very God of very God, Begotten, not made, Being of one substance with the Father, By whom all things were made: Who for us men, and for our salvation came down from heaven, And was incarnate by the Holy Ghost of the Virgin Mary, And was made man, And was crucified also for us under Pontius Pilate. He suffered and was buried, And the third day he rose again according to the Scriptures, And ascended into heaven, And sitteth on the right hand of the Father. And

That's what they say

a scandal in 1963 when the then Bishop of Woolwich, John Robinson, published "Honest to God", a book of popularised radical theology that led some laymen to think honesty should have extended to resigning his suffragan bishopric. In today's mood of reaction, which is strong in other churches beside the Roman Catholic one, there may be more Church of England members than there were in 1963 prepared to dig their heels in and say enough is enough, that the adventurous clergy have adventured too far.

The evangelical, fundamentalist wing of the Church of England is flourishing, eager to spread the good news of the gospels, not some modern bishop's interpretation of them. There is a separate

clash between most of the clergy and the small band of traditionalists who want to preserve the church's ancient prayer book. The traditionalists overstate their case: the majesty of the language they love does not prove that the wording of the Alternative Service Book is banal drivel, while many parish priests maintain it was a real obstacle to filling their empty pews. The more recent extension of the traditionalists' attack to the new book's allegedly milk-and-humanism theology is also open to question. But reality here matters less than feeling, and what these conservatives feel—despite some encouragement from the Archbishop of Canterbury—is, quite simply, that the rank-and-file have been betrayed by the smart-alecs higher up.

How very different from the simple faith that has been offered this month to a largely heathen Britain by two foreign evangelists, Mr Billy Graham at football stadiums in the provinces, Mr Luis Palau at one in west London. Mr Graham, on his first major crusade in Britain since the late 1960s, has reached half-time—he starts again in Birmingham on June 30th—and already claims more than 35,000 who have come forward for Christ. Mr Palau, an Americanised Argentine following up a mission to London last autumn, has just decided to extend his £1.3m campaign, due to close at the end of June, up to mid-July. He records near 14,000 who have come forward.

Mr Graham's figures represent a response rate of around 8½%, Mr Palau's around 6½%—both good for this kind of campaign: last autumn's Palau campaign recorded only 4%. For both men, the young are a prime target: around half of those who come forward are under 18.

Both evangelists deal in certainties. They know that Jesus is the rock of salvation and the Bible, all of it, the word of God. Mr Palau last Monday spent much of his time assuring a youthful audience of 8,000 that God indeed made pretty girls, but it was the devil who tempted young men to go to bed with them (or vice versa) without getting married first. He was not in great inspirational tongue either. But none of that stopped a striking proportion of his listeners going forward.

True, some were of an age that would not know what to do in bed but hug its teddy bear, and very few were of the sort that normally fills football stadiums. But the lesson for preachers was plain: don't hum, don't haw, but tell it like you believe it is, and others will believe it with you. Perhaps the bishops of the Church of England should go to football stadiums more often.

BUSINESS THIS WEEK

Negotiators in the dispute between West Germany's **IG Metall** and the employers' federation agreed on a 90-minute cut in the working week to 38½ hours. Will strikers ratify it?

EEC summiteers settled the five-year feud over Britain's contribution to the budget. Britain is to get a 66% refund on its payments from 1985, plus the £440m rebate frozen in 1983, but will pay more to get it.

American congressmen agreed a package of tax cuts to reduce the **American budget deficit** by an amount that nobody knows quite how to calculate. American banks' prime rates went up from 12½% to 13%.

Newspaper tycoon Rupert Murdoch and the Bass brothers of Texas independently acquired stakes in America's papermaker **St Regis**. Greenmail or just fanmail?

Merrill Lynch is laying off another 1,500 people—bringing this year's total to 2,500—in an exercise to save \$200m in 1984.

Bob Lutz, 52, took over as chairman of **Ford of Europe** to help the carmaker snatch back the market share it has lost since he last held the job in 1982.

Norman Tebbit, Britain's trade and industry secretary, told the City of London that the government will don

its regulatory jackboots unless it agrees a system of **self-regulation** by the end of the summer.

Martin Bangemann was named as West Germany's new economics minister after Otto Lambsdorff stepped down in advance of a court hearing on alleged bribery charges.



Terence Beckett, director-general of Britain's bosses club, the CBI, said **teachers and managers** must meet face-to-face if industry was to get the recruits it needed.

Japan's **Toyota** shelved plans to build cars in Taiwan for at least six months.

A World Bank offshoot, the International Finance Corporation, will help set up a \$60m fund to invest in **South Korean stockmarkets**.

Britain's accountants published a watered-down version of their late, unloved **inflation accounting**

standard, SSAP 16. Companies have until the end of the year to squawk, or take it on the chin.

The privately-owned New York bank Laidlaw, Adams and Peck agreed to merge with London's merchant bank **Henry Ansbacher**. Together the two firms would have assets of \$350m.

Reuters is to pay fellow news agency **UPI** \$3.3m for its photographic interests outside America. The two companies also signed a 10-year exchange pact that will help Reuters set up its own picture network.

Falling spot market oil prices scuppered the British government's £392m stockmarket launch of **Enterprise Oil**, despite Rio Tinto-Zinc's offer for 49% of the shares above the minimum 185p a share tender price.

Wealthy backers of **Lloyd's** insurance syndicates run by Minet Holdings have appointed legal counsel to help them decide on a deal to recover £39m of missing reinsurance premiums.

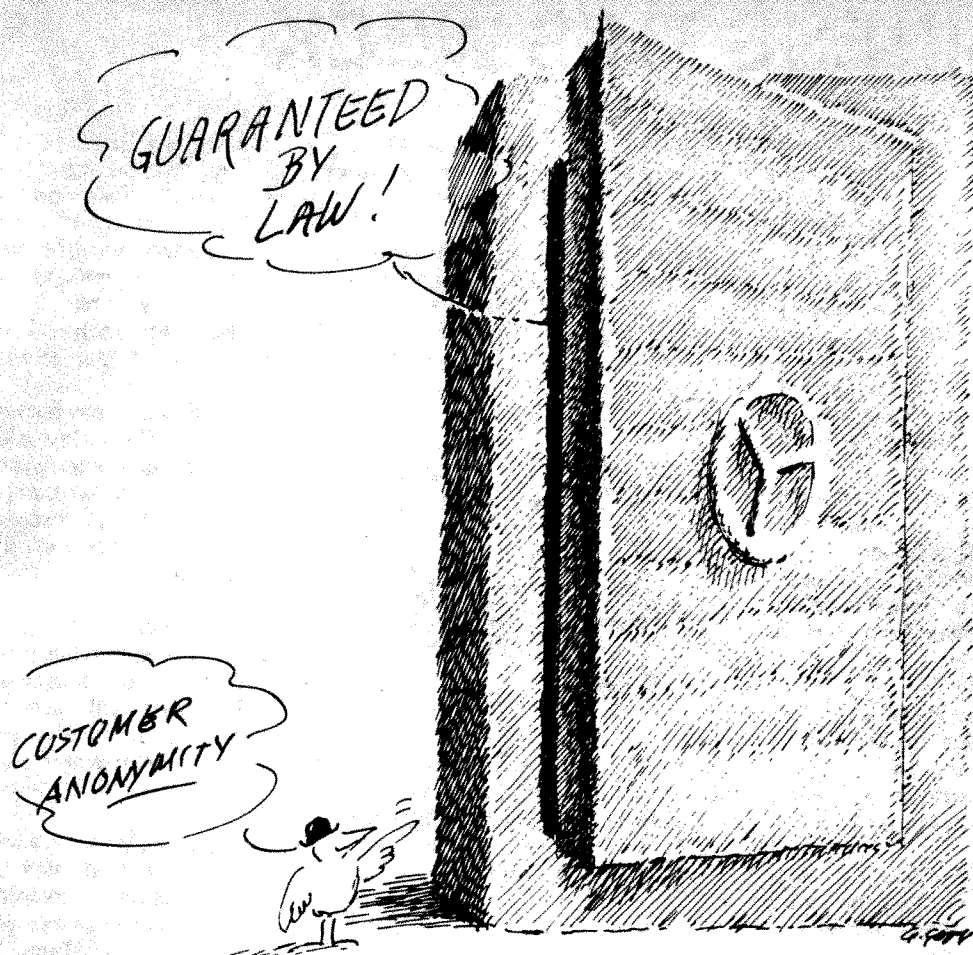
Mr Juerg Remund, head Eurobond dealer at **UBS Securities**, killed himself. "Trading irregularities" cost his firm up to \$5m.

Economic and financial indicators are on pages 89-90.

Corporate scorecard

Company	Period	Net profit \$m*	% change on comp period**	Sales \$m*	% change on comp period**	Comment
Borregaard	***	5	‡	210	+29	Increased sales of edible oils, cellulose and chemicals helped keep this Norwegian group ahead.
Charter Consolidated	Y Mar 31	55†	-19	920	+48	Profits from the sale of shares in Rio Tinto-Zinc offset a drop in profits from the British company's engineering businesses.
Ferranti	Y Mar 31	58†	+23	670	+21	Buoyant computer and instrument sales made up for the flatness of the British engineer's electronics division.
Matsushita Electric Industrial	H May 20	220	+17	6,530	+21	A 33% increase in export sales gave a shot in the arm to the maker of National and Panasonic brand consumer electronics.
Moët-Hennessy	Y Dec 31	47	+18	670	+25	The French champagne, cognac and perfume group reaped the benefits of higher export earnings.
National Semiconductor	Y May 31	64	‡	1,660	+37	The American chipmaker cashed in on last year's increase in demand for chips.
Semperit	H Dec 31	(9)	(+183)‡	550	+6	Higher labour costs, fewer state subsidies and poor demand for its tyres still plague this Austrian manufacturer.
Trusthouse Forte	Y Apr 30	48†	+42	325	+14	Free-spending tourists helped fill the rooms at the British group's hotels in and outside London.

Y = Year ended. H = Half-year ended. * Converted at average exchange rates. ** Based on local currency figures. *** 4 months. †† Increased losses. †Pre-tax. ‡Loss in previous period.



LET'S TALK ABOUT AUSTRIA'S BEST KEPT SECRET

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WORLD BUSINESS

A chance for IBM's antitrust knight to lay down his lance

PARIS AND LONDON

IBM's 15-year struggle to escape from the shadow of the western world's antitrust laws seems to be nearing a successful end. Representatives of the computer giant and the EEC commission staff were sitting down in Brussels this week for another round of talks aimed at settling the commission's antitrust complaint against the company. Both sides think that a deal can be made and a fight in the European court of justice avoided.

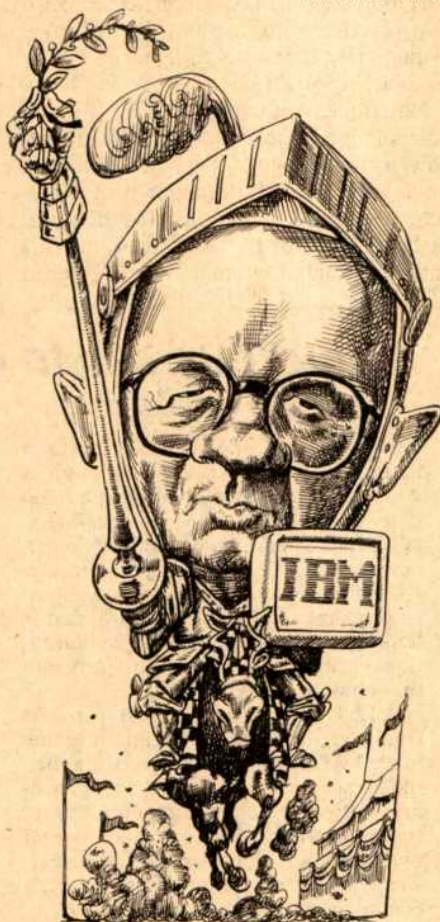
A settlement would be an important achievement for IBM, whose ambition to build up its recently faltering European sales could be thwarted by a politically embarrassing court contest. But IBM's probable relief in Europe has been slightly tempered by the announcement of a minor but irritating American investigation of the company's recent lawsuits against its rivals—especially the Japanese computer-maker Hitachi.

The EEC commission's action is the last of the grand antitrust cases brought against IBM as a result of the swift dominance it achieved in big mainframe computers in the 1960s. IBM won or settled some two dozen private and public cases in America. Its most important story came in January, 1982, when the Reagan administration simply gave up the government's 13-year-old lawsuit against the company.

The European action is almost as ancient. IBM was notified of an informal investigation in 1973. The commission listed its grievances in 1982. The two sides have been bickering over a settlement ever since.

The commission's case is based on what it says is the company's abuse of dominant position in the European mainframe market. IBM's dominance seems pretty clear: it has about two thirds of the west European market for such large machines (see chart, page overleaf).

The main abuse, says the commission, is that the company releases too little technical information, and too tardily, about its System 370 computers and their interfaces (ie, the connections between a machine's central processor and all the



John Opel, knight errant

things that can be hooked up to it, such as disk drives, printers, communications equipment and programmes). The commission reckons that IBM's practice harms competition by delaying the production of rival equipment by plug-compatible competitors.

The commission wants IBM to release interface information when it first announces a new product anywhere in the world (instead of, as now, when it first ships a product). And it wants the company to disclose enough to let any firm making something that can be hooked up to a System 370 machine know right away how to make the connections.

IBM has several retorts, some of which were made publicly by the company's president, Mr John Opel, when he visited Europe last month. The most important is that the proposed disclosure would hurt innovation: IBM's rivals, says the company, would sit back and wait for free access to its R&D; and it would be less willing to spend on R&D if it knew that it would benefit competitors. IBM also says that interfaces are inseparably entwined with the internal design of its equipment. The commission just scoffs at that.

The commission's strategy of attack on IBM is sound. America's trustbusters never defined clearly what they thought the company had done wrong or how to correct it. By contrast, the commission has focused on the most important fact about IBM—that it sets industry standards—and is aiming its remedial proposals to help competition flourish on the basis of the IBM standard.

None the less, there is plenty of pressure on both the commission staff and on Mr Opel to settle. As recently as April, word was being leaked in Brussels that the EEC commission would be seeing the company in court. Since then, both sides have started making concessions.

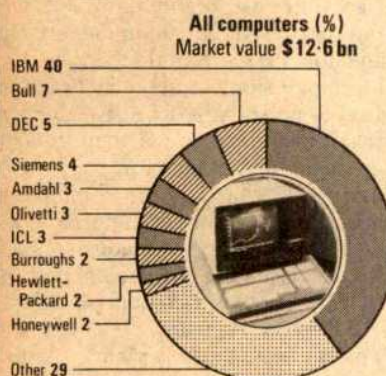
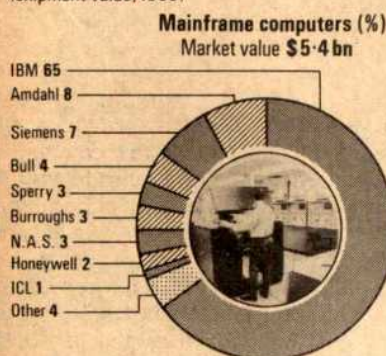
If the case is not settled, the commission will be taking a stand on untested legal ground. It would not be easy to prove that it is abusive behaviour in itself for even a dominant company not to release interface information. IBM is popular with several European governments. And even many of IBM's European competitors think that the commission is raking over yesterday's questions in worrying about central-processor interfaces. They are more interested in what is going to happen with standards for computer linking networks (see page 56), a subject now belatedly added to the settlement talks.

IBM has good business reasons for making a deal. It has just gone through what by its lights were a disappointing five years in Europe. In 1979, European sales accounted for 40% of its worldwide revenue; their proportion has continuously fallen since, and last year was down to 27%. Europe's poor economic growth relative to America's and Japan's has meant that its rate of investment in data processing equipment has fallen behind America's and Japan's.

So IBM is trying to reverse this relative decline in its European operations. It is

Just like at home

European computer market shares
(shipment value, 1983)



Source: IDC Europa

marketing its personal computer in Europe more strenuously than before. Earlier this month, it transferred more authority from its European headquarters in Paris to national subsidiaries in Britain, France and West Germany.

IBM has worked very hard at presenting itself in Europe as a good (almost) European. The strategy has usually been successful, but any big sales push in Europe now would require the company to be even freer of a foreign tinge. A court fight with the EEC, which would probably drag on for two or three years, could ruin these plans.

So both IBM and the commission say common ground exists for a deal. The company will not disclose its latest proposal, but hints broadly that it could bring itself to agree to release a limited amount of interface information, and to promise not to let too much time elapse between a product announcement and shipment (when the interface information would be released).

The commission talks in the same general terms. Both sides say that the easiest agreement may come on open standards for computer networks. Time is short: Mr Frans Andriessen, the EEC commissioner for competition, has set an end-July deadline.

NMB Semiconductor

Co-prosperity?

TOKYO

Take one elderly engineer, add an ambitious Japanese ball-bearing maker and impoverished but clever British technology, and mix with a borrowed ¥47 billion (\$200m). Whether or not that is a recipe for success in mass producing computer memory chips, it is how a new Japanese firm, NMB Semiconductor, is linking up with Britain's state-backed chipmaker Inmos to make the most sophisticated chips now in mass production, 256-kilobyte dynamic random access memories (more familiarly, 256k d-rams).

NMB does not even yet know if it can boil an egg. The company was started only a month ago and has not made a single chip. It is the brainchild of Minebea, which makes precision ball bearings (it has a third of the American market) and is unusual in Japan because it likes to

grow by buying companies. Minebea has wanted a chip shop for three years, but none was small enough to buy. Then it found Mr Takumi Tamura, 66 years old and chief engineer of Tokyo Sanyo Electric, Sanyo's semiconductor subsidiary. His firm wanted him to agree to retire at 68, but Mr Tamura wants to carry on working until he is at least 74. So he quit and set up NMB in league with Minebea.

So far, more than half of NMB's capital of ¥2.5 billion has come from foreign and Japanese venture capital firms, with Minebea putting up 23%, Mr Tamura himself 4%, Minebea's boss Mr Takami Takahashi 5%, and the other 14% from seven banks. Next year, Minebea plans to inject another ¥2.5 billion, doubling NMB's capital and raising its stake to 61.5%. NMB will soon start building its first chip factory, investing ¥22 billion this year and ¥25 billion in 1985, all borrowed from banks.

NMB has Mr Tamura's chipmaking brains and Minebea's borrowing power but no technology. This is why Mr Ta-

A cautious call to computers

NEW YORK

Everybody was looking forward to a battle of the titans when the break-up of American Telephone & Telegraph freed it to compete with IBM in computers. AT&T has been understandably reluctant to accept the challenge too quickly. Its announcement of some new computer products on June 26th shows that it hopes to trade heavily on its communications experience as it makes its entry into the computer market.

AT&T showed off its first personal computer, an IBM-compatible machine made by Olivetti. More interesting than the personal computer itself was a local-area network to allow computers to talk to each other. AT&T's much larger minicomputers, unveiled early this year, were also offered with a high-capacity communications network.

Makers of computers and telecommunications equipment still do not know whether computer systems based on telephone wires or on specialised networks will carry the bulk of information that moves around offices and factories. Until one or the other triumphs or—equally likely—the two converge, office-automation companies must offer both. AT&T sells powerful private branch exchanges (pbxs), designed for office use, as well as its new local-area networks; they will be able to plug into each other.

AT&T's announcement of a local network plays to an apparent weakness of IBM. The computer giant announced recently that its own local-area network would not be available for another two or three years. IBM has looked beyond

Armonk for communications expertise: last year it took a stake in Rolm, the Californian pbx specialist.

AT&T avoided a costly struggle to set its own personal-computer standard by making its machine compatible with IBM's. All companies in the office automation market have concluded that they need to sell personal computers despite the low margins on these machines. The availability of a desk-top machine makes it more likely that the same producer's equipment will be chosen when users graduate to bigger systems. AT&T's next step, this autumn, will be to sell more powerful desk-top computers, made by Convergent Technologies.

These bigger machines will run on AT&T's own operating-system software, Unix, which AT&T is pushing as an industry standard. AT&T chose not to use Unix on its new personal computers, but instead Microsoft's MS/DOS operating system, a version of which runs IBM's personal computer. One reason is that Unix is too powerful: it is designed to support a system of computers with several users, and requires a lot of computer memory to run.

By choosing a standard for local-area networks known as Ethernet, AT&T has taken sides in a fight among several companies, each of which is trying to get its own scheme for linking office machinery adopted as the industry's main standard. Despite the annoyance caused by IBM's delay an outright winner is unlikely to emerge until IBM finally delivers its own local-area network.

Land of the setting sun

Some of Japan's basic industries started to run down a long time ago: coal, then textiles, then shipbuilding, then aluminium. They are now being joined in the casualty ward by steel, petrochemicals, oil refining and cement. Today's declining industries do not always want the ubiquitous ministry of international trade and industry (Miti) to play nurse.

Some of Japan's declining industries have made slimming look relatively painless. Most diversified early—eg, shipbuilders into engineering, steelmakers into new materials. They have achieved cutbacks without recourse to the government cash and protection against cheaper imports that steel and textiles have received in Europe. Japan's petrochemists, smelters or steelmakers have involved the government only if and when it suited them.

This contrasts sharply with Miti's role in the past. In 1968-70, the ministry arranged the merger that made Nippon Steel the world's largest steel company. Now, when Nippon Steel is losing money, reducing steel capacity by 15% and scrapping 2,400 jobs, Miti has not had a look-in. Miti bureaucrats say that steel firms are big enough to look after themselves. In reality, big steel is resisting



interference. So are troubled firms in cement, petrochemicals and oil refining. Miti wants mergers in these industries to reduce competition, but the firms (except for a couple of refiners) say no.

One reason is that the government has little to offer. Like steelmakers in Pittsburgh, or weavers in Bradford, troubled Japanese businessmen want protection against imports. And Miti's instinct is to say yes. But it cannot afford to do so when it is battling to keep the American and European markets open for Japanese cars and consumer electronics. In the 1950s and 1960s, one of Miti's strongest levers over Japanese industry was its custody of foreign currency permits. With import controls taboo, Miti now has no such leverage.

So Miti has become avuncular, not dictatorial. Depressed industries are allowed to set up cartels to co-ordinate capacity cuts. These they then discuss with uncle Miti.

The worst basket case dealt with in this way has been **aluminium**. Hit by rising electricity costs, Japanese smelters have been overwhelmed by imports. Since 1977, imports have jumped from 28% of the Japanese aluminium market to 85%, while domestic production of aluminium has fallen from 1.2m tonnes to 235,000 tonnes a year.

In response, smelters have agreed several rounds of closures, each of which has soon become outdated. Out of capacity in 1977 of 1.6m tonnes, 930,000 tonnes has already been closed. Another 450,000 tonnes will go by 1986.

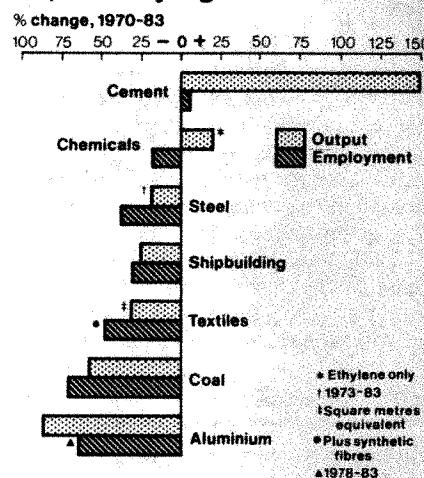
Government has played a small role: firms meeting their closure targets have been rewarded by tariff reductions on imported ingots; some loans have been guaranteed; and the government is running a buffer stock of 150,000 tonnes of aluminium a year to steady prices. State cash has been used chiefly to research into cheaper smelting methods.

Though Japan's **shipbuilders** won 55% of the world's new orders last year, Japanese ship output has halved from nearly 16m gross registered tonnes (grt) in 1975 to 7.2m grt last year, while employment has fallen from 260,000 to 160,000. So Japanese yards mothballed 26% of capacity in 1983 and another 30% this year.

Unlike Europe's subsidised steelmakers, when Japanese firms agree to cut capacity, they actually do so. That is also true of **petrochemicals** producers. Last year, they agreed to reduce ethylene capacity by 36% and plastics by 24% by March, 1985. Most has already been cut. Now **cement** firms, hit by imports and failing demand, are talking about cutting capacity by more than 20% to about 100m tonnes a year.

How can Japan manage industrial old age so painlessly that unemployment stands at just 2.8% of the workforce? The straightforward answer is that its economy has grown at 4-5% per year, creating new jobs to replace those lost. Also there is little "frictional" unemployment—people out of a job while they look for another. Many firms are linked by shareholdings or more informally to big industrial groups. Mitsui Shipbuilding or Mitsui Aluminium can switch workers to other Mitsui companies that are doing better. Nippon Steel

Japan's dying industries



has sent workers to the car plants of Nissan and Toyota.

Trade unions accept this, and are willing to accept retraining. Japanese firms pay their workers according to seniority, so a shift from being a welder to packing lunch boxes (as happened for some at Ishikawajima-Harima Heavy Industries) does not mean a pay cut. Genuine redundancies can cause strikes, as at Sasebo Heavy Industries in 1979-81.

Most rusty Japanese industries are in the same places as shiny ones. Regional problems do occur, but they are mild. Costly **coal** mines have been closed in Hokkaido, Japan's northern island, where alternative jobs are scarce. Nationwide, coal output has been cut from 52m tonnes a year in 1970 to only 16m last year. Of 2,180 miners unemployed in March, 1983, 1,170 still could not find a job by March, 1984.

Few Japanese industries remain dependent on government aid or cartels. Ordinary cartels to cut output are allowed to last only three months. Cartels formed under the 1978 law can be longer, but always have a fixed duration.

Miti has goaded petrochemicals and oil refining (and soon will goad cement) into rationalising into joint sales firms—four for petrochemicals, probably five for cement. Japan's trustbuster, the Fair Trade Commission, approves these so long as no firm gets more than 25% of the market; it has fought off Miti's efforts to force further concentration.

Small and medium-sized firms are more cosseted than big ones. They can get exemption from the anti-monopoly law for price- and market-sharing cartels. About 10,000 firms, especially in services like cleaning, hairdressing and shops, belong to around 350 cartels. The commission has reduced the number of cartels from 1,079 in 1966. But, as in the west, cartels are habit-forming.

WORLD BUSINESS

mura approached Inmos, the British firm with factories in Wales and Colorado. It has technology but lacks capital. Mass production of chips needs big investment. So Inmos will provide NMB with the mask and circuit design for 256k d-rams; NMB will produce 1m a month by the end of next year and 4m-5m a month by 1987. About half will be sold to Inmos. At the end of 1985, the pair plan to start developing a one-megabyte chip, the 256k chip's intended successor.

Is Mr Tamura worried about Inmos's future—and the controversial sale of the British government's 75% stake, perhaps to AT&T (see page 47)? No, he says, because his contacts at Inmos have told him that after this latest deal the government will probably not sell its stake after

all. If it still does, it will sell it to British interests. Whether Mr Tamura is right may depend on to whom he has spoken at Inmos.

Whatever happens, NMB's plan is a gamble. The market for 256k rams is hotting up as the big Japanese makers, Fujitsu, Hitachi and NEC, are all investing heavily in new lines and cranking up output. Dataquest, the Californian consultancy firm, reckons Japanese companies will make 36m of these chips this year, 90% of world output. Though chips are still in short supply, the big investments being made will soon fill that gap. A 256k chip now costs ¥5,000 in Japan; if NMB is unlucky, by the time it starts production next spring the price could be a lot lower, and tumbling fast.

a fair and independent-minded mediator.

This improves the chances that his plan for the metal-bashing industries may also provide a template for settling the 12-week-old strike of the print union, IG Druck. A recent attempt to end this dispute failed when management rejected an arbitrator's proposal to give all workers an additional 10 days of paid holiday a year as a way of fudging the weekly-hours numbers.

The cost of the metal-workers' strike has been high. IG Metall tried, in hitting the car-component makers, only to hurt those companies that could take the bruises. Inevitably, though, car production was eventually halted because of a shortage of parts. The industry reckons it has lost a full month's output of cars and lorries—some 380,000 vehicles.

The Bundesbank, West Germany's central bank, reports that, by June 22nd, almost 8m man-days had been lost in the metal-working industries as a result of strikes, lockouts and layoffs, representing a production loss of about DM3 billion (\$1.2 billion) or 3% of the average production of the manufacturing industries in May and June. Retailers in the main strike-hit district around the car plants of Stuttgart say furniture and household appliance sales are as much as 25% below normal levels. Travel agencies complain that an unusually high number of foreign holidays have been cancelled.

35-hour week

At last, the 38½-hour solution

BONN

West Germany's unions, led by the metalworkers and the printers, have opened the way to a 35-hour working week with no cut in pay. They won't get it for several more years; but it is in sight, though only after the most serious (and unnecessary?) round of strikes and lockouts West Germany has known.

This week union and industry representatives agreed unanimously to accept a plan to end the six-week-old strike. The plan, proposed by Mr Georg Leber, the chief arbitrator, will now be put to the wider membership of the metalworkers' union, IG Metall, and the metal-industry

employers' organisation.

It offers the metalworkers a 3.3% pay rise now—about equal to the rate of inflation—plus another 2% when management reduces the work week from 40 to 38 hours 30 minutes on April 1, 1985. The details of how the shorter hours will be worked will have to be arranged firm by firm.

Mr Leber, a former chairman of the building trades union and a former minister of defence, is a Social Democrat, but he also has conservative credentials as a member of the central committee of German Roman Catholics. He is regarded as

Denmark

Bringing home the bacon

COPENHAGEN

When Denmark's prime minister, M Poul Schlüter, took office in September 1982, he promised to eliminate the balance of payments deficit in three or four years. He made a good start, reducing the deficit from Dkr18.7 billion (\$2.2 billion) in 1982 to Dkr10.8 billion last year. But now it has begun to rise again.

The government foresaw a deterioration in the deficit this year to Dkr12 billion, but that forecast looks too small. After a first quarter current-account deficit of Dkr5.8 billion and large trade deficits in both April and May, the current-account deficit in the first six months of the year alone may be nearly Dkr10 billion. The economy is now in a phase of rapid expansion (the Danish Federation of Industries thinks manufacturing investment will increase by a real 30-35% this year) so no big improvement in the balance-of-payments figures is likely in the second half of this year.

Denmark's creditworthiness was down-



Compromise in sight

Win the argument, lose the job

PARIS

Being right can prove wrong for the bosses of France's big state-owned industries. Earlier this year, Mr Raymond Lévy, chairman of the nationalised Usinor steel group, won a long debate over the future of the French steel industry when the government accepted his argument that big job cuts were needed and that a project by the other steel group, Sacilor, to build a large rolling mill in Lorraine would simply boost excess capacity. Now Mr Lévy has been told that he is out of a job. When his two-year term of office as chairman expires this summer, he will be replaced by a civil servant, Mr René Loubert.

The government is giving no reason for its decision not to reappoint Mr Lévy. All the industry ministry says is that it has no criticism of his management. But it is no secret that his victory this spring was won against the advice of President Mitterrand's industrial adviser, Mr Alain Boubilil. The industry minister, Mr Laurent Fabius, supported the Sacilor rolling-mill project. The Communists, who have four seats in the government, are hostile to job cuts. Mr Lévy's victory won him a lot of enemies.

The government is now deciding whether to reappoint several nationalised industry bosses whose terms expire this summer. So far, Mr Lévy is the only

one to have been ditched in the industrial sector. But a similar fate befell Mr Daniel Deguen, chairman of the Credit Commercial de France (CCF), the country's fourth biggest bank. After taking the bank smoothly into state ownership in 1982 and boosting its profits in 1983, he was told that he would not be reappointed. His replacement is the head of



Lévy levered out

the prices board, Mr Claude Jouven.

The government is as reticent about giving reasons for dropping Mr Deguen as it is over Mr Lévy. But the outgoing CCF chairman made himself unpopular late last year by protesting against the way state banks were pushed into a rescue package for Creusot-Loire, the heavy engineering group. Mr Deguen then thought the terms were too kind to Creusot-Loire's private owners. Mr Deguen seems to have had the last laugh, though. This week, the courts were due to settle whether Creusot-Loire should be put into receivership.

The fates of Mr Deguen and Mr Lévy raise questions about the status of French state-sector bosses. The government has recently been stressing the independence they enjoy, but the political limits are drawn as tightly as ever. The dropping of Mr Deguen was widely seen as a warning to other state bank chairmen to toe the line on rescues.

The changes at the top of Usinor and CCF could hardly have been worse timed for one of the government's pet projects: workers' representatives on the boards of nationalised firms. Elections were held early this summer to pick workers' directors. They are meant to have a say in the choice of nationalised companies' chairmen. The first the workers heard of the replacement of Mr Lévy and Mr Deguen was when the government decisions were published in the official gazette.

rated in 1982 by Standard and Poor's from AAA to AA+. With a net foreign debt at the end of last year of DKr185 billion, equivalent to roughly 35% of the gross domestic product, the country can ill-afford a worsening of the external current account. Interest payments will rise from DKr18.5 billion in 1983 to around DKr21 billion this year while the surplus on other current-account items declines. So Denmark now has to increase its borrowing abroad just to pay the interest on the debt.

The government is a victim of its main success—and of its one serious policy error. Its success is a tighter lid on public-sector spending than any other Danish government has achieved for three decades. In real terms, total public expenditure in 1983 and 1984 is rising at an annual rate of only 0.6%. The government has also cut the rate of wage increases from about 10% in 1982 to a current rate of about 4% a year. The tightness has helped reduce the yields on government bonds from 22% in the autumn of 1982 to about 14% now. It has helped to dampen fear about devaluation.

The budget deficit in 1983 fell to 7.8% of gdp—less than forecast when the government took office. OECD forecasters expect it to fall again to 6% in 1984 and 5% in 1985 (see chart).

The government's mistake was running a permissive monetary policy along with a strict fiscal one. The money supply increased by 25% in 1983, a consequence of allowing the budget deficit to be financed largely by selling bonds to the banks rather than to the general public.

Inevitably, bank credit has begun to expand as well. Commercial bank advances increased by 14% in the year to end-April, almost double the 8% a year guideline laid down by the central bank.

(The bank moved this month to curb the credit expansion, but also raised the basic guideline to 10%.) Lax monetary policy prompted a sharp recovery in private-sector demand, which in turn is the cause of the alarming rise in imports. In the first five months of the year, imports increased by 21.3% while exports rose 14.1%. The trade deficit widened from DKr300m in 1983 to DKr4.6 billion this year.

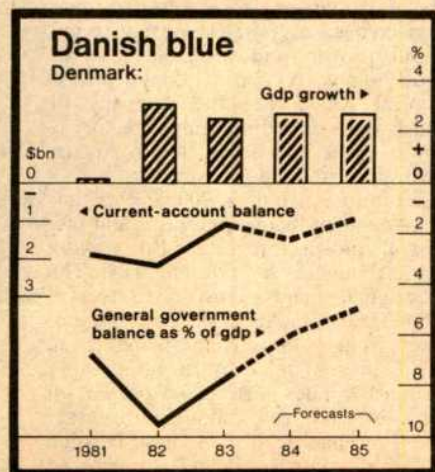
Uranium

A Canadian reader for Australia

CANBERRA AND TORONTO

Australia's Labor party looks set to stand on its head the no-new-mining uranium policy that it embraced in opposition in 1977—thus turning it the right way up. When the party, now in office, holds its congress in July, the prime minister, Mr Bob Hawke, who once said of uranium mining "my heart says no but my head says yes", thinks he can persuade delegates to give him his head.

He is relying on a report by the Australian science and technology council, chaired by Professor Ralph Slayter,



Source: OECD

which advocates new mining (as Mr Hawke had hoped it would when he instigated it). Mr Slayter reckons that Australia, with the largest proven reserves of low-cost uranium in the non-communist world (474,000 tonnes), will best be able to contribute to non-proliferation, world peace, etc, if it becomes involved in the business. And the Australian council of trade unions now says it will pursue safeguards rather than try to stop production.

Mr Hawke wants existing mining companies—Energy Resources of Australia (which runs the Ranger mine) and Queensland Mines (Nabarlek)—to be able to sign new export contracts. Australia's output from such mines has already increased tenfold since 1978, when the country produced 518 tonnes of the metal. Production will increase further when the Roxby Downs project of the Western Mining company starts working. It already has the go-ahead because other minerals will be mined with uranium.

The government says that, after this, no other new mines will be needed until the end of the century. Its reason: the uranium market is glutted because consumption by electricity utilities is falling. Prices have declined from around \$30 a pound in 1980 to only \$17 now.

Australia should look at Canada to see how uranium mining can be profitable even when demand is slack. Like Australia, Canada has big new uranium mines. This year, producers plan to raise output by almost 25% on 1983's levels.

Most of the increase in Canada's output will come from the new Key Lake mine in northern Saskatchewan. Another mine, owned by Rio Tinto-Zinc, opened in 1983 at Elliot Lake in central Ontario. Apart from Key Lake and another mine in Saskatchewan, almost all Canada's uranium is produced near Elliot Lake by mines owned by RTZ or Denison mines.

Canadian producers can afford to tackle new ventures. The open-cast Key Lake mine has low costs and high-grade ore, so it can undercut other producers. Most of the mine's output for the next five years has been sold on long-term contracts at prices fixed before they slumped.

Long-term contracts have also helped older, high-cost underground mines at Elliot Lake. Ontario Hydro, which buys about 3m pounds of uranium oxide a year, is said to guarantee a cost-plus price. But even Canada's uranium industry is not quite recession-proof. Three mines have shut in the past year and exploration in Saskatchewan has been cut back to a third of 1980's activity.

Oil

Arabian nightmares

Oil markets are baffling Opec once again. The cartel's ministers had hoped that increasing demand would let them raise production quotas at their next meeting in Vienna on July 10th. No such luck for them. Demand has risen about 3% over the second quarter of 1983 but spot market oil prices have dropped 3% since the beginning of June. As Opec ministers well know, raising the cartel's production ceiling of 17.5m barrels a day (b/d) would risk pushing prices down further.

The Iran-Iraq war was expected to raise oil prices, but seems actually now to be depressing them. Iraq's intensified efforts to cut off the Iranian oil loading terminal at Kharg Island succeeded in reducing Iran's production to around 1.5m b/d in late May. When Iran retaliated with its own attacks on tankers, oil companies began building stocks against possible supply disruptions. Saudi Arabia, eager to prevent an inadvertent price hike, was among the Gulf states happy to provide the extra crude. So Opec production rose in June (see chart, next page).

Inconveniently for most Opec mem-



The diggers return

KALGOORLIE

Kalgoorlie, Australia's gold capital, 350 miles east of Perth in Western Australia, is booming as it has not done since before the Great Depression in the 1930s. "There's gold all over this state", chortles Mr Ray Finlayson, the town's veteran mayor. He gleefully predicts prices of \$1,000 an ounce and a golden

future for Western Australia.

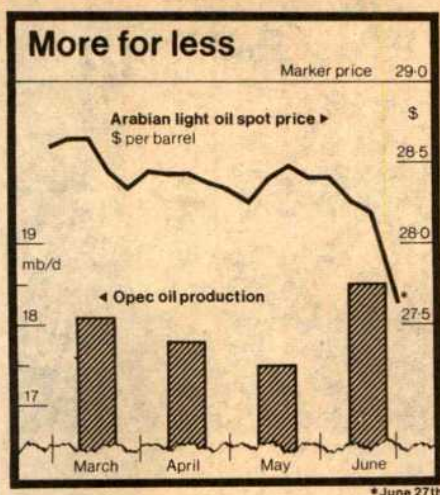
More down to earth, Mr Doug Daws, a regional administrator, reckons that mining companies are now investing around A\$50m (\$43m) a year in the eastern goldfields, an area of several hundred square miles that includes many new small gold mines as well as the old

names along Kalgoorlie's so-called golden mile. Millions more are being spent on shopping centres, office blocks and luxury homes—all heady stuff for a "booey" town of barely 22,000 people.

Recent Western Australian gold booms have been concentrated mainly in the stockmarkets, singeing the fingers of unwary overseas investors. But this time there is evidence that some gold bars might result. One firm on the Golden Mile, Kalgoorlie Mining Associates, has sunk a A\$70m shaft—the largest single investment the area has seen.

Most of the investment is coming from multinational miners, but not all. A former Kalgoorlie pharmacist, Mr Bill Hicks, has assembled a series of long-neglected leases, raised some money and found proven and probable reserves worth almost A\$25m at today's prices. Central Kalgoorlie, the company of which he is now managing director, is due to come into production in August with a new A\$2.5m gold smelter.

Western Australia's 200,000 aborigines—many of them enthusiastic and successful prospectors—are also striking gold, though in a different way. The Aboriginal Lands Trust is to receive A\$300,000 and A\$25,000 a year thereafter from a consortium planning an open-cut gold mine at Leonora, more than a 100 miles north of Kalgoorlie, on land set aside as an aboriginal reserve. But aboriginal land rights have become politically controversial in Australia.



bers, the tanker attacks have not been effective. Iran discounted the price of its oil enough to offset higher insurance costs, so its production climbed back to around 2.4m b/d; and the oil companies no longer want extra crude for stocks. Opec states have not been able to cut production quickly enough to bring supply back into line with demand. So prices have sagged. The stocks built in late May and early June allow the oil companies to postpone the seasonal task of building up stocks for the northern-hemisphere winter's period of peak demand.

The glummiest face at Vienna will be that of Nigeria's oil minister, Mr Tam David-West. A couple of months ago he lobbied his Opec colleagues for a bigger share of the cartel's production. With some success. His most important conquest was Saudi Arabia's oil minister Sheikh Ahmed Zaki Yamani.

In early May, Sheikh Yamani was saying that he expected Opec to raise its overall production ceiling in July when Nigeria would be given a slightly larger share. In today's markets, however, Opec will have to try to get its members' production down, not up.

Nigeria is now producing exactly its Opec quota—1.3m b/d of oil. Few other Opec members are so disciplined. The United Arab Emirates, Qatar and Indonesia are all said to be exceeding their quotas by 100,000-200,000 b/d. Nigeria itself was producing about 1.5m b/d earlier this year—before it realised that overproduction was not helping to convince other Opec members to grant it a legitimate increase in its production.

Instead of producing more, Nigeria is now concentrating on other ways of boosting its oil revenues. The most successful has been an offensive against corruption in the oil industry launched by the government of General Mohammed Buhari. On some estimates, smuggling of refined products under the previous government had deprived the country of

more than 10% of its oil revenues. Also, having failed to get oil companies to pay in advance for its crude, Nigeria tried to charge "temporary premia" of 25-50 cents a barrel on two of its export grades. It failed to get those too.

The trouble for Nigeria and other Opec countries eager to boost crude oil production and revenues is that the only way to eliminate the weakness in today's oil markets is simply to cut production further. However disappointing it may be to Opec oil ministers, Vienna's Opec meeting seems to have little choice but to repeat that message—or risk pushing prices down by more.

Beer

Cheers?

Can Britain's brewers raise a glass to a growing market again? Last year, the three-year slump in the amount of beer Britons drank was checked (see chart on page 62). In January to mid-June this year, total beer consumption rose by 1.3%. Enough for temperate optimism but not enough to stop brewers and publicans praying for a long, thirst-making summer. The industry's pre-tax profit could top £850m this year. Though that would be a big improvement on 1983's £740m, beer consumption is still barely back to pre-recession, pre-jogging 1973 levels.

One reason why beer sales picked up this year is that the Easter holiday was late and warm. Profits have been boosted because the brewers have succeeded in persuading Britons to drink lager (ie, chilled, light, continental-style beer). In 1973, only 15% of the beer drunk in Britain was lager; now 36% of it is. With more Britons taking foreign holidays in places where 90% of the beer drunk is of the lager type, the advertisers have found a receptive audience among 18-24-year-olds who have the money and time to spend on beer and who are more easily persuaded that drinking lager is fashionable and fun. The brewers hope that the drinking habits acquired in youth will last a lifetime.

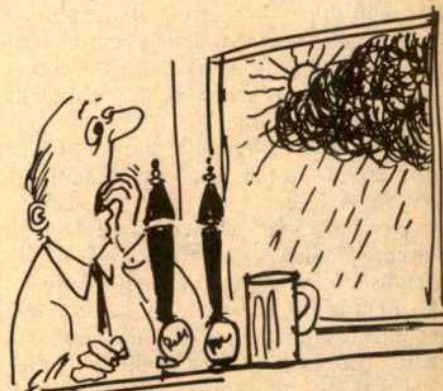
Whereas nearly all the ale (ie, lovely, dark, warm beer) that is sold in Britain is brewed by British-owned companies, about 40% of the lager is either imported or brewed under licence by foreign-owned firms. The share of such brands is even bigger in the fast-growing take-home market. Nearly half the beer sold in shops and supermarkets (worth £750m a year) is lager.

Though imported beers (excluding Guinness stout) account for only about 2-3% of the £7.8 billion spent each year on

beer in Britain, their share is growing fast (up 22% in volume in 1983). Since the introduction in January this year of new common market regulations, about a tenth of the 35,000 tenants of brewery-owned public houses in Britain are now free to buy "special" (ie, most bottled or canned) beers from outside suppliers. Until the regulations came into force, tenanted publicans could sell only what their brewery owner wanted them to sell.

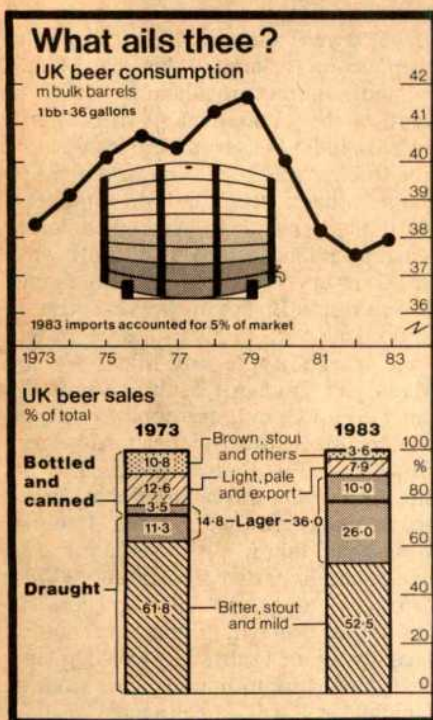
As a result, British brewers are rushing to do deals with foreign ones to protect their market share. In May, Watney Mann and Truman (a subsidiary of the hotel group Grand Metropolitan) signed an agreement with America's Anheuser-Busch to sell its Budweiser beer in Britain. And earlier this month the big brewery Courage (owned by the Imperial group) said that it was to sell a range of five lagers imported from France, West Germany, Singapore and Czechoslovakia. Off its own bat, Grand Metropolitan recently set up a subsidiary called Special Beer Company to import beers from as far afield as Japan, Jamaica and Canada.

Importing more foreign-brewed beer is but one way Britain's brewers have sought to protect themselves against a future drop in sales. Many have acquired new outlets for their beer. This week, the Warrington-based brewer Greenall, Witley spent £44m on a 51% stake in the De Vere Hotels group, which owns the Cumberland Rooms and the Mirabelle Club in London as well as 14 hotels in the rest of



Britain. Add to that Greenall's existing clutch of hotels in the north-west and midlands of England.

Others have diversified. In May, Arthur Guinness & Sons paid £48.6m for Martin's, a chain of British newsagents. The previous month, Whitbread spent £6.5m on a 20% stake in the independent television company Television South. Mr Charles Tidbury, Whitbread's departing chairman, has reduced the contribution of British-brewed beer to 40% of the company's pre-tax profit (of £95.1m in the last full year); about the same now



Source: HM Customs and Excise, Brewers Society

comes from retailing including off-licences, and 20% from wine and spirits wholesaling.

At the same time, the big five breweries—Bass, Whitbread, Scottish & Newcastle, Courage and Guinness—who between them account for 75% of all beer sold in Britain, are spending more on their outlets. All told, they will sink about £220m, or 85% of their total investment this year, into either tarding up their pubs (which are now attracting more but lighter-drinking women) and off-licences (where alcohol is sold over the counter), or setting up new ones.

A lot of small regional brewers have prospered from the fashion for traditionally brewed beers, but most still lack a deep pocket. So the choice before them is starker: swallow or be swallowed. After months of infighting, Matthew Brown, the Lancashire brewer, this week completed wresting control of Yorkshire's T. & R. Theakston. One condition of the deal was that the name of Theakston's famous Old Peculier brew would not be lost (or misspelled) in the merger.

London Business School

Peter's principles

The London Business School (LBS) sits peacefully in one of Nash's most elegant Regent's Park terraces, but its new principal-elect, Mr Peter Moore, wants to push the institution further into the hurly-burly of real business life. His dream is to build bridges between Britain's universities and

its industries.

That will not be easy. It is no secret that Mr Moore is regarded as a transitional figure, so he needs to study the reign of John XXIII. The school's outgoing principal, the newly-knighted Jim Ball, is five years younger than his successor, having started with the school when it was founded in 1965 and taken over the top job when still in his thirties. During the 14 years since then, Sir Jim both built the LBS into a £3.5m-a-year business, and helped make business education more respectable in a country where bosses and political leaders often dismiss such training.

Mr Moore is 56 years old. He cut his teeth on statistics with bachelor and doctoral degrees from University College, London. He joined LBS at the same time as Sir Jim, as a professor of statistics and operational research. He has no passion for any particular theories of management education. A quiet, reflective man, he cuts the kind of figure to be found running the local building society. When he was a member of the University Grants Committee, the LBS got a sizeable grant (last year it accounted for £1.8m, 52.5% of its total income). Though other business schools may disagree, such is London's excellence it probably deserved it.

He is keen to bring together the practical and applied research still segregated in British businesses and universities, and meld them both into the school's curriculum. He wants to plug courses that help managers cope with new technologies and with the switch in the British economy from manufacturing to services.

This means developing stronger links



Pope John XXIII?

with British universities so that engineering students, for example, have a chance to learn about the business of business, particularly marketing, a lack all too common in British industry.

Like heads of other European business schools, Mr Moore wants his business school to become more internationally minded; not just in the student count that business schools tout to prove their cosmopolitan credentials, but by making its courses more international, and by more student exchanges. LBS already runs popular one-term exchange programmes with counterparts, such as that with Insead in France. One other way for the LBS to become more international, as Mr Moore realises, will be to revert after him to a younger principal. LBS, Mr Moore brags, is already on a par with the Harvard Business School. Some Americans seem to agree. In the last academic year 40 of the LBS's 200 foreign students came from the United States and Canada.

Sweet poison

TOKYO

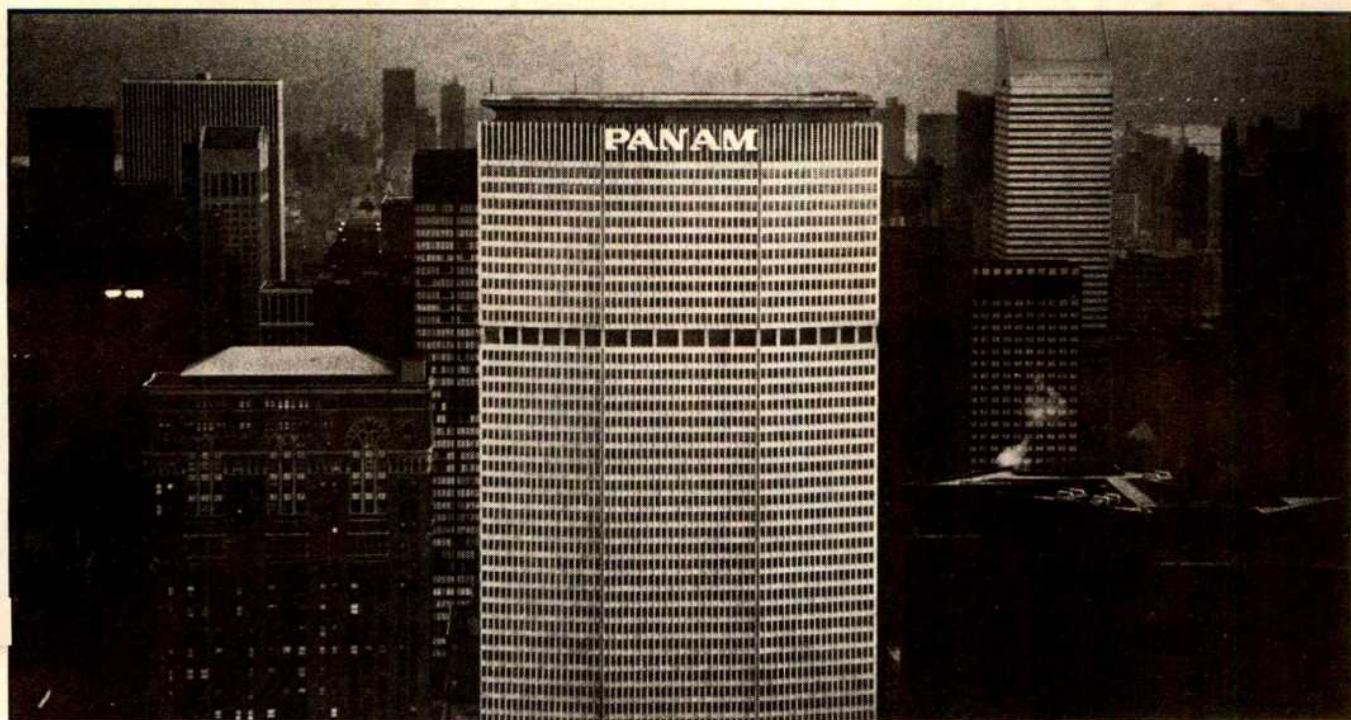
The gangsters who have been harassing Ezaki Glico, the Japanese maker of Pocky sticks and some other confectionery, have called a truce. This week these nutcases, who had threatened to lace Glico's sweets with cyanide, wrote a bizarre letter to local newspapers and "to all our fans across the country", saying that "since Japan is getting hotter we intend to go to Zurich, London or Paris" and that they would leave the firm alone until next year.

This news and a promise by the labour ministry to pay subsidies to avert lay-offs at the company sent Glico's shares jumping Y31 in a day to Y586 (their 1984 high was Y745). The firm said it will resume full output, which it had to cut when shops stopped stocking its products.

There is still no clue who the authors are, or what were their motives. Their

campaign began by kidnapping the firm's boss from his bath in March (he escaped), then petty arson and later the cyanide treats. Glico, which lost Y5 billion (\$21m) in sales in May because of the affair, tried at least once to pay a Y300m ransom, but failed. The gangsters say they did place two poisoned packs in shops, but retrieved one, and said that the other must have been among sweets withdrawn by stores.

They may be giving up for fear they are about to be caught. In their letter they suggest tauntingly that the police should follow them to Europe and "bring some Glico Pocky" with them, "it's delicious". At least so far nobody has been killed—unlike in 1982 when cyanide was put in Johnson & Johnson's Tylenol headache pills in Chicago, and seven people died.



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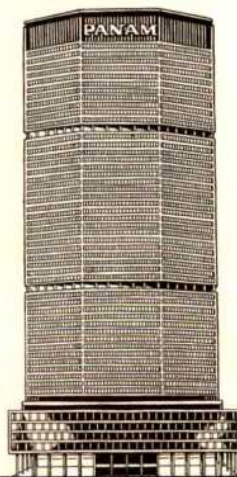
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FINANCE

Financial Corporation's billion-dollar gamble

American bank regulators are worried that the country's biggest mortgage banking group, Financial Corporation of America (FCA), is growing too fast. Its assets increased from \$763m in 1978 to \$22.7 billion at the end of last year and by ther \$5.1 billion in the first quarter of 1984. FCA's founder and boss, Mr. Charles Knapp, says that assets could top \$35 billion by December 31st (see chart).

Regulators worried aloud about FCA when it asked to buy in 25% of its shares and issue debt instead. On June 22nd, FCA was given a conditional go-ahead. It had to promise to expand its main subsidiary, American Savings and Loan, no faster than the average growth of other savings and loan associations, to match the maturity of its assets and liabilities more closely, and to make sure that the ratio of American's net worth to total assets was 4% at the end of each quarter.

The regulators had already insisted on the 4% ratio (compared with a 3% minimum for the rest of the industry) when

FCA bought another big savings and loan company, First Charter Financial, for cash and shares last year. This time FCA said nothing doing and dropped its plan to tender shares for debt.

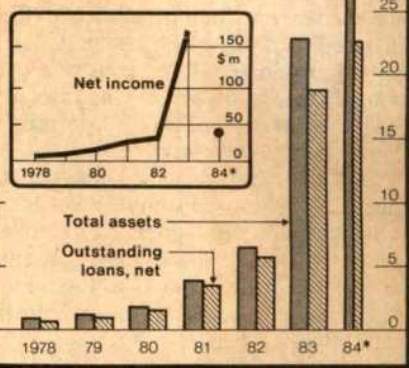
FCA grew big by betting on interest rate movements. Its savings and loan subsidiary was the first to use salesmen to shop for deposits, and FCA now plans to send them as far afield as Hongkong and Zurich. FCA, which has a London office, used these extra deposits to expand its loans during the 1980-82 recession when others were starved of deposits and lost money on their fixed-rate loans.

Mr Knapp's philosophy is simple: make a lot of high-yielding, fixed-rate loans when interest rates are high and sell them at a profit when the cost of money falls. After an anxious wait, interest rates fell in 1982 and FCA made a bundle. As interest rates began to rise this year, FCA took the same gamble. Wall Street's verdict was to drive the price of its stock down from a \$32½ peak to less than \$10 this

NEW YORK

The house that Knapp built

Financial Corporation of America
Years ending Dec 31st



Source: Company reports

* First quarter

week.

Mr Jonathan Gray, an FCA watcher at the New York stockbroking firm Sanford C. Bernstein, thinks that the company is more exposed to increases in interest rates than many other large savings and loan associations. Examining the company's balance sheet for December 31, 1983, he reckons that a change in rates would alter the earnings on only 30% of FCA's assets, but affect the cost of 84% of its liabilities—a maturity mismatch of 54%. The company says that this figure is "way out" and puts the mismatch at only 30%.

By trying to ride the interest rate cycle, FCA runs a greater risk than many other lenders of being caught by

● The high cost of money. Most savings and loan companies now try to lend at variable rates to hedge against the rising cost of deposits. In May, more than 60% of new mortgages were at floating rates. FCA depends on lending at fixed rates and hopes to make a killing when the cost of money falls. Even so, FCA has tried to make its fixed-rate investments more liquid in case interest rates continue to rise. It has bought \$5 billion of mortgaged-backed securities this year and keeps \$2 billion in cash. "This is a market of perceptions", says Mr Knapp, referring to the recent and sudden loss of deposits at Manufacturers Hanover bank.

● Bad loans. By expanding its loans so fast, FCA could risk bigger loan losses than financial institutions which grow more slowly. At the end of March, 2.3% of FCA's assets had gone awry—only a fraction more than the industry's average.

Alfonsin unbowed

Negotiations over Argentina's debt are still at stalemate. The Argentine economy minister, Mr Bernardo Grinspun, met the committee of creditor banks in New York on Monday before going on to Washington for talks with Mr Donald Regan, the American treasury secretary, and the IMF's managing director Mr Jacques de Larosière.

The disagreement with the IMF remains at the root of the impasse. Although the talks at the IMF were tactfully described as "cordial", Mr Grinspun refused to make any significant concessions on the draft letter of intent submitted unilaterally to the fund by Argentina a fortnight ago, and which the fund insists is unworkable.

Before returning to Buenos Aires on Wednesday evening, Mr Grinspun affirmed that an agreement with the IMF is "very important for our country". But he could hold out hope of progress only "within the next weeks and months".

The bank steering committee broke up on Wednesday night without any conclusion and with no date set for further talks. So American banks will almost certainly have to classify their Argentine loans as "non-performing" at the end of June.

In Buenos Aires, President Raul Alfonsin called for "an exceptional effort" to overcome the country's grave economic situation, "the reality of which is hard and difficult to accept". His nationwide broadcast was notable for its new emphasis on the need for austerity.

This may not mean Argentina is at last about to bow to the strictures of the IMF. Government officials in Buenos Aires are saying that Argentina can afford to spin out the talks until the bankers are ready to do a deal (as they are likely to do with Venezuela) which does not require prior agreement on an economic austerity programme with the IMF.

FINANCE

But regulators want FCA to re-classify another 1.25% of its assets as troubled loans. FCA is arguing the point.

FCA's rapid growth in assets (see chart) may disguise a much poorer record because bad borrowers usually take a year or two to fall behind on their payments. Mr Gray looked at FCA's books last September and found that 18.8% of loans made in 1980, 13.6% of loans in 1981 and 5.4% of loans in 1982 had gone bad. Mr Gray's sums make it look as though FCA's problem loans were serious at the time that it absorbed First Charter Financial, which began its latest expansion splurge. He reckons that over 15% of loans made by FCA had run into trouble by March, 1983. FCA refuses to comment on the figures.

Mr Knapp says that he knew that an unusually high proportion of loans made in the recession could go bad. Most other savings and loan associations did nothing and 90% of them made a loss. FCA stayed in the black and boosted profits when interest rates fell in 1982.

Earnings of many savings and loans associations are inflated by two accounting dodges. Loans bought by associations and yielding less than market rates are booked at a discount to bring their yield into line with the market. This discount is written off as goodwill; when these loans are sold for more than their discounted value, the association books a "profit". Equally quirky, all fees payable over the life of a loan can be booked the moment it is sold. Both bits of accountancy juggling increase present earnings at the expense of future income.

FCA's earnings from interest and fees actually paid in cash are much slimmer than reported profits. Mr Gray reckons that these "core" earnings at FCA had dwindled to a mere nine cents a share in the last quarter of 1983, compared with

reported earnings of \$1.11 a share.

Mr Knapp agrees with this distinction between "core" and reported earnings but says it does not apply to FCA, because it merely buys and sells assets and is not really a bank anyway. But he admits that if all goes well and interest rates fall, he will only shrink his assets from \$35 billion to \$31 billion next year. So FCA will still depend on the quality of loans it makes.

British corporate taxes

Inflated hopes

Britain's politicians say inflation is dead. Britain's companies cannot afford to believe them. Two publications this week show why.

On June 25th, the Institute for Fiscal Studies (IFS) published a study* showing that corporations are likely to pay more tax after March's budget scrapped various corporation tax breaks on the grounds that inflation had fallen too far to justify their distorting effect on investment. Then, on June 27th, accountants published a proposed new current-cost-accounting standard which they hope will be less flamboyantly disregarded than its late and unloved predecessor, SSAP 16. The two could not have come at a better time.

Corporate treasurers have been moaning that the chancellor of the exchequer's pro-business budget is no such thing. It scrapped the national insurance surcharge and corporation tax is planned to fall in stages from 52% to 35% in 1987. It also abolished stock relief (which had allowed companies to subtract from profits the rise in the value of inventories due to inflation) and phased out first-year capital allowances.

The treasury claimed that the package would have little effect on revenues during the transition period, and would reduce tax bills in the long run. Not so, says the IFS. Corporations stand to pay some £2.3 billion more in 1986 and £1.5 billion a year more thereafter than they would have under the old system because

- Companies' average effective rate of mainstream corporation tax (ie, what they actually pay, after allowances and other tax breaks) will rise rapidly to around 35%, then fall a bit—but stay 10 points above what companies would otherwise have paid and way above the 10% that they were paying up until 1981.

- More companies will pay tax. About half now are "tax-exhausted" (ie, have more allowances and reliefs than profits). Roughly a fifth will be in future, once an estimated £30 billion in unused tax losses at the end of 1981 are written off.

*IFS, Corporation Tax, June 1984.

The IFS study is imperfect. Its sample of 4,000 companies is heavy on large manufacturing and distribution companies; light on the service sector which stands to benefit most from the new tax measures.

Another quibble: assiduous reading of footnotes shows that at lower inflation and higher growth rates (ie, closer to the government's own projections), even the IFS figures show a smaller gap during transition and lower tax bills eventually under the new system.

But its main point is indisputable: the new system makes no allowance for inflation, past or present. When prices are relatively stable, as now, companies are still paying too much tax because their assets are valued according to what they cost to buy many inflation-ridden years ago, not according to what they would cost to replace now. If prices start rising again, the real tax burden under the new structure will soar. This could land corporations in the same kind of cash flow bind which led to the introduction of rough-and-ready inflation adjustments like stock relief and capital allowances 10 years ago. A tax-reforming government should have tried harder to come up with a system for all seasons.

In March, Treasury officials told accountants not to abandon the search for a good inflation accounting standard just because the government had backed away on inflation-adjusted taxes. So the accounting standards committee (ASC), which makes the rules for the profession, has dutifully produced its proposals. More than half the public companies required to comply with the unpopular SSAP 16 did not bother. So ASC officials have been legging it round the non-compliers to make sure the new standard suffers no such humiliation. The result is both easier and tougher than predecessor.

- SSAP 16 required companies to supply a full set of supplementary accounts on a current cost basis. ED35, as the new paper is catchily called, requires only an adjusted profit and loss account, plus a couple of adjusted asset valuations. All of it can be stuck into a footnote to the regular accounts.

- But companies which fail to do this (only some public companies are required to and only on their consolidated accounts) are now liable to find their accounts qualified by their auditors.

If son of SSAP 16 fails to win acceptance, it is over to the government, say committee members. No bad solution, perhaps; it was (Tory) government interest which launched the quest for inflation accounting standards 10 years ago. But today's Tories will see few votes—and a lot of hassle—in inflation accounting.

Knapp selection



INSIDER TRADING



The 50-year-old Wall Street cop still on the beat

America's Securities and Exchange Commission is 50 years old on July 2nd. Under Mr John Shad, its current chairman, it is hunting down insider traders with the same New Deal zeal that it attacked stock manipulators in the 1930s. This offence, though, is defined and the penalties are slight. What can be done about it?

Every chairman of the Securities and Exchange Commission (SEC) wants to leave his stamp on the agency. The agency's give-'em-hell chairman of the 1960s, Mr Mannuel Cohen, sought to make the exchanges more competitive. In the mid-1970s, Mr Roderick Hills cracked down on corporate bribery. Mr John Shad's mission is to root out insider trading. During his two-and-a-half-year-old regime, the SEC's enforcement division has brought charges of insider dealing against 49 individuals, almost one third of all such cases brought in the commission's 50-year history.

Under the stewardship of Mr Shad's predecessor, Mr Harold Williams, the SEC interpreted its securities policing role broadly, concentrating more on the public accountability of large corporations than shenanigans on the stockmar-

kets. Even so, signs were that insider trading was on the increase. Between 1979 and 1981, the regulatory agency charged 33 people with the offence.

Charges of insider trading—the use of privileged information in securities' dealings—have been levelled at mighty as well as small-time investors. Earlier this year, the SEC charged that, before becoming deputy secretary of defence, Mr Paul Thayer had illegally helped eight people to make almost \$2m in stockmarket deals; he denied the charges but resigned. A former trader at Lazard Frères recently pleaded guilty to dealing on inside information ahead of the 1981 takeover of St Joe Minerals Corporation. A New York dial-a-cab driver, in cahoots with a (now ex-) employee of the law firm Skadden, Arps, Slate, Meagher & Flom, has also been nabbed.

Instances of possible insider trading can be picked up almost daily. The usual tip-off comes in the form of the prescient and upward movement in a stock price before a bid is announced. Witness the uncanny accuracy with which the market recently forecast Sir James Goldsmith's bid for Continental Can Corporation; the offer by the Detroit tycoon Mr Alfred Taubman for Woodward & Lothrop; the buy-back by Walt Disney of shares purchased by Mr Saul Steinberg; and the takeover talks at the Colonial Penn insurance group. The stockmarket price of all four moved hard and fast before any public statement had been made.

Insider trading invariably means the betrayal of trust and confidence. It also damages the integrity of the securities markets. Honest investors come to view investment as a rigged bet, themselves victims of a sting. They might expect and enjoy a gamble in raffish markets like Hongkong and Singapore but not on the New York Stock Exchange, which justly claims to be the best regulated market in the world.

Has the American investor become less squeamish about making a dishonest buck because the penalties are slight? Or has the insider trader always been around, undercover and able to cover his tracks because of a somnolent SEC? Possibly both, but the number of insider trading cases has also increased recently because the commission has sought, through the courts, to broaden the definition of insider trading to catch all who misuse non-public information—from newspaper share tipsters to cab drivers to waitresses in a restaurant who overhear (and act upon) privileged stockmarket information.

The use of non-public information to make a profit or avoid a loss is as old as stockmarkets themselves. In 1862, John Pierpont Morgan the elder had in his New York office a private telegraph wire, which kept him ahead of rivals on news of the American Civil War; bulletins passed to his father Junius in London gave him the edge on British investors. During the Napoleonic wars, Charles Random De Berenger, posing as a Colonel Du Burgh, supposedly aide-de-camp to General Lord Cathcart, spread false rumours that Bonaparte was dead and that England and France were about to make peace. He made a killing (£10,000) in British government stocks but, along with two

INSIDER TRADING

conspirators (both members of parliament), went to jail for 12 months for "conspiring to injure the public". Insider dealing lies somewhere between the legitimate nimble-footedness of Morgan and the outright fraud of De Berenger.

Tracking down offenders is a thankless task. The existing penalties for insider trading, which can only be prosecuted under the anti-fraud provisions of federal securities laws, are trifling. When the agency reckons it has a case, it brings what is called a civil injunctive action against the accused (see chart below). In 90% of the cases brought, the alleged insider trader settles before trial; he signs a consent decree without admitting or denying the allegations. On pain of contempt of court proceedings, a judicial order is issued prohibiting the accused from doing again what he has not admitted he did. In addition, the insider trader is required to forfeit any profits he had made from the trade. This is the equivalent of pardoning a bank robber provided

1929, the biggest culprits of insider dealing were corporate officials. So the legislators laid down precise boundaries within which directors, officers and large shareholders could deal in the stock of their companies. The principles were established by case law.

There was no attempt by the 1934 legislators to outlaw insider trading by stockbrokers, other insiders (and outsiders) who came into possession of privileged information. It was not until 1942 that the commission tackled the problem. It promulgated the so-called Rule 10B-5 under the section of 1934 act which allowed it to lay down rules to protect the public. But again, there was no specific mention of insider trading. The rule simply forbade securities trading based on fraudulent activity. It was to be left to the courts to decide what was and was not fraudulent.

Did the new rule halt insider trading by marketmen? Not at all. The chatter of insider dealers was as regular as the clatter of ticker-tape machines. So spineless was the SEC (its headquarters were scathingly called the tarpaper shack) that for almost 20 years not one stockbroker was prosecuted for insider trading. Not until, that is, William Cary (a Kennedy appointee) took over the commission's chair in 1961. He immediately tackled the outstanding case of a young stockbroker who had been passed inside information that a conglomerate, Curtiss-Wright, was about to cut its dividend and promptly sold 7,000 shares on behalf of his clients. It was an open and shut case under Rule 10B-5 of the 1934 act.

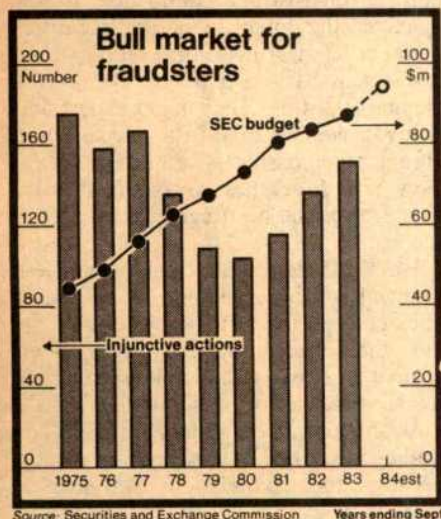
Despite protests from the New York Stock Exchange that it was quite capable of disciplining its own members (which patently it was not), the commission suspended the broker for 20 days. It was a comparatively light sentence. None the less, convinced that the tarpaper shack was being rebuilt with stronger materials, broking and dealing firms issued directives against the use of privileged information for gain. Another landmark case was the successful action brought by the commission in 1966 against directors of Texas Gulf Sulphur. They made a mint from insider dealing on a zinc and copper discovery in the Canadian Shield.

These actions caused insider traders to take to the hills. So what has suddenly brought them back to the Wall Street valleys in droves?

Mr Shad has his own theories. In evidence to the congressional hearing on the Insider Trading Sanctions bill aimed at stiffening penalties, he said that the increase in the number of takeovers and tender offers (up from 1,889 in 1980 to 2,533 last year) and the total value of the bids (\$73 billion in 1983) had dangled

before insiders an irresistible temptation to deal on privileged information (see chart below). The stockmarket reaction to a proposed acquisition is predictable: the share price will rise and the insider can make a huge profit at no risk. The average premium over the pre-bid market price paid for target companies between 1980 and 1983 was almost 50%.

What has also made insider trading more tempting is the growth over the past 10 years of the options market. This

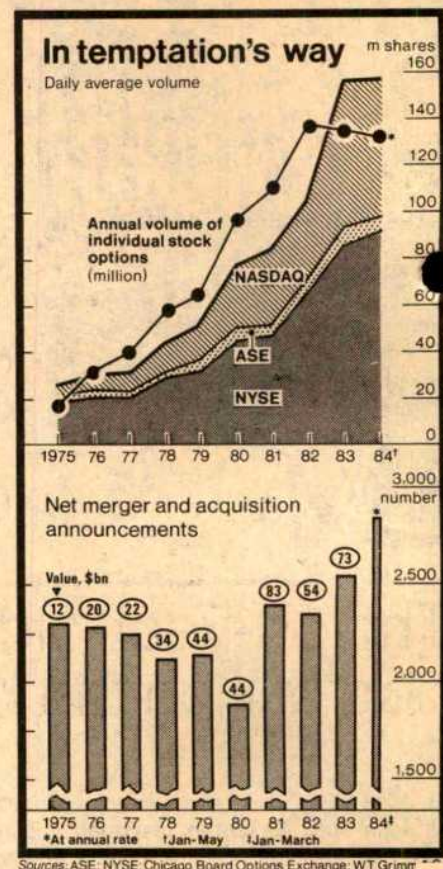


he hands back the loot.

In America, as elsewhere, insider trading was long regarded as a legitimate perk of brokers, dealers and corporate officials. Most Wall Street brokers and corporate accountants and lawyers now deplore it, but the transition has taken almost 50 years.

After the Wall Street crash of 1929, the securities industry was blamed for the Great Depression. The congressional hearings which followed uncovered a financial Sodom—wholesale stock manipulation, breaches of fiduciary duty and insider dealing. Out of the congressional hearings was born the Securities Exchange Act of 1934, which established the SEC with broad supervisory powers over the securities industry and outlawed stock fraud and manipulation.

The 1934 act did not either specifically define or proscribe insider trading. Pre-



allows unscrupulous investors to land a large profit for a modest outlay. Mr Insider Dealer, with foreknowledge of an impending bid, the development of a new money-spinning widget, a gold strike or some other piece of non-public information, buys call option contracts in the stock of that particular company.

Each contract represents the right to purchase the stock of that company until a specified date, after which time the option expires and the contract is worthless. Typically, the purchase price of such options is only a fraction of the value of the underlying security. So when the price-sensitive information is announced, the value of the option rises by a far greater percentage than the underlying stock.

A variation on this kind of insider dealing is a market operation called "front running". For example, a broker-

age house receives a huge buying order for the shares in a company, a block purchase, which is likely to move the stock price upwards. Before executing the order, the broker or somebody else in the know buys option contracts in the stock, thus front running the original order and ensuring himself of a hefty profit.

Such behaviour is banned by securities exchanges and most brokerage firms, but there are other factors which might deter a would-be runner. A broker could lay himself open to an action for breach of fiduciary duty and/or breach of contract by his employer; disciplinary proceedings (and possibly disbarment) might follow from his own professional body. Loss of livelihood and legal expenses involved in mounting a defence (plus the social odium if his name were linked to such a scandal) is enough to deter most—though all.

Scope for insider dealing has also grown with national securities markets becoming more international and the emergence of the financial conglomerates (multifunctionaries in the jargon), which can embrace, eg, merchant banking, broking and fund management. How can anybody be sure that information picked up as an investment adviser to a corporate client is not passed on to portfolio managers? Diversified financial groups maintain that a Chinese wall exists between operations but over such walls ivy has been known to grow.

Not all Wall Street insider dealers are home-grown villains. Take the SEC's biggest and longest-running investigation into alleged insider trading in the stock and options of Santa Fe International, an oil and gas services company, before it was taken over by the Kuwait Petroleum Company in October, 1981. The commission alleges that rogue investors made over \$6m profit on the inside track. Within days of the bid it had obtained a temporary injunction to freeze \$5m of the cash traced to bank accounts in America.

In this case, the commission made rapid and easy headway at home. As well as reports from the various stock exchanges and the options markets, it has its own computer monitoring service to pick up and investigate suspicious stock price movements and dealings. It soon pinpointed one of the purchasers of Santa Fe stock ahead of the offer. He was Mr Darius Keaton, a director of Santa Fe, who bought 10,000 shares (cost: \$235,000) before the Kuwaitis bid and sold them afterwards for a profit of \$279,000. While neither admitting nor denying the commission's allegations of insider trading, Mr Keaton consented to the entry of a final judgment enjoining him from violating the anti-fraud provisions

of the federal securities laws and ordering him to disgorge his \$279,000 profit to the American treasury.

Injunctive actions were taken out against several other alleged insider dealers in Santa Fe stock and options. The SEC also alleged that a certified accountant and financial adviser to a Santa Fe director bought for \$54,000 options to purchase 80,000 common shares in the company, which netted him \$1.1m.

But the commission had also hit a stone wall. The bulk of the frozen \$5m was made on stock and option purchases through foreign banks or the foreign arms of American banks. It alleged that roughly \$600,000 was made on orders placed through the London branch of the Luxembourg-based (and now defunct) Inter-



Crusader Shad

national Resources and Finance Bank and most of the remainder through Swiss banks. Many countries, including Britain and Switzerland, have laws which prohibit the disclosure of business records and details of individual bank accounts to foreign regulatory agencies. Even so, the commission set about doggedly to unmask the Santa Fe stock traders through the British and Swiss courts.

It was more than three years before the commission had its biggest break. Early this year, the high court in London ruled that the commission's investigators could interrogate two former London employees of the Luxembourg bank. Then, in May this year, the Swiss Federal Tribunal, the highest court in the land, overturned its earlier decision and ordered five banks (Crédit Suisse, Swiss Bank Corporation, Citicorp, Chase Manhattan and Lombard, Odier) to disclose the

identities of clients who had bought Santa Fe stock or options through their secret bank accounts.

Ideally, there should be international agreement on co-operation to deal with insider trading but that, for now, is pie-in-the-sky. (Would Liechtenstein, the Cayman Islands or the Bahamas ever open their doors?) Meanwhile, the sheer doggedness of the commission in chasing insider dealers, halfway across the world if necessary, should prove something of a deterrent.

The moral and civil-law message against insider dealing would be reinforced by tougher penalties. The Insider Trading Sanctions bill winding its way through congress proposes to legislate a civil penalty of up to three times the insider's trading profit.

Recently, the commission has been pursuing people who pick up privileged information by luck more than anything else—a grey area not covered by existing legislation and one in which the SEC has had to rely on the broad anti-fraud provisions of the 1934 act to bring prosecutions. In two fairly recent cases brought by the commission, the Supreme Court ruled that the regulators had overstepped the mark.

The first involved a financial printer, Mr Vincent Chiarella, who caught sight of an offer document going through his printing shop and bought shares on the strength of it. The Supreme Court cleared him of any wrongdoing. Then, last year, the commission lost another case, against a stock analyst, Mr Raymond Dirks.

He received information about fraud at Equity Funding Corporation of America from one of its employees. He blew the whistle on the fraud but not before he had pulled his clients out of Equity Funding stock. The court ruled that because the employee was motivated not by gain, but by a desire to bring to light a fraud, no violation of the securities laws had occurred.

Sensibly, an attempt to legally define insider trading in the new bill has been shelved. The greatest problem in any insider trading law is identifying what is and what is not inside information. A narrow definition risks sparing the guilty to protect the innocent; too wide and every investor lands in court. Let case law decide.

No definition would be perfect, nor would it deter determined rogues—but most people, faced with dire financial penalties, would think twice before dealing on privileged information. As for the argument that investors deserve a clear definition of insider trading—well, under the present laws, if there is any doubt in their minds when they trade, then it's a fair bet that what they are doing is wrong.

*"In the Interbank market,
Chemical Bank is the
undoubted star."*

*"No other bank scored well enough
to be included in all four major
currencies."*

*"Chemical's rise was powered by its
two very active operations in
London and New York."*

*"Its corporate dealers have not only
direct lines into up to 80 corporate
names, they also have voice boxes
into the dealing rooms of their most
active customers."*

*Euromoney, May 1984,
pp 203-6, "The traders whose
customers love them."*

CHEMICALBANK
Foreign Exchange



congressional support for their pet projects.

Peer review works like this: universities with bright research ideas send them to the relevant government department, where they are assessed by impartial experts. The best ones are included in the department's research budget and submitted to congress. Congress sets global spending levels and can influence departments' overall research strategies. But it tries to steer clear of scientific decisions about individual projects.

So much for the theory. Things do not always work out like that in practice. This year, an undignified squabble has broken out between the Association of American Universities, the exclusive club that represents the 50 most prominent research universities in the United States, and Georgetown University, a private Catholic college perched in one of Washington's fashionable residential areas. The association is accusing Georgetown of exploiting its location to cultivate influential congressmen and win special treatment when congress serves out its research budget.

The association is furious about a request Georgetown made last month for a whopping \$160m government grant to demonstrate how electricity and heat can be generated by a combination of fuel cells and coal gasifiers. The money is to come out of Pentagon research funds, but the project was not peer-reviewed nor included in the army's own budget request.

Instead, Georgetown simply took its case to congress direct. If it succeeds, the



association says in a letter to Senator John Tower, chairman of the armed forces committee, the army will be directed to make a "major national investment" without the benefit of open competition among qualified universities, and without outside scientific or technical review.

Will the noisy opposition of America's best universities quash the scheme? Don't bet on it. For the past two years, universities willing to dip into the congressional pork barrel have done alarmingly well. The National Academy of Sciences (like the Association of American Universities) is afraid that, if the trend continues, government decisions about financing science could degenerate into the kind of spoils system that already pervades America's public works programmes. But science's high command shows little sign of being able to keep its own troops in line. Indeed, two of the most notorious recent offenders are elite universities which belong to the association: Columbia University in New York and Catholic University in Washington, DC.

For the second year running, Catholic and Columbia are to receive millions of dollars from the department of energy to pay for research facilities which the department's internal reviewers had decided not to support. Advised by a Washington lobbying firm, Schlossberg-Cassidy and Associates, the universities got round the department's objections by mounting brilliant campaigns on Capitol Hill. During last year's budget debates, for example, Catholic had its trustees—mainly prominent bishops from important cities—make last-minute telephone calls to influential congressmen pressing the case for a new vitreous state laboratory on its campus. Thanks to the personal intervention of Mr Thomas ("Tip") O'Neill, the Speaker of the house of representatives, both universities got what they wanted. Inevitably, some of the money was taken away from other universities which had put their faith in the time-honoured peer review system.

Oddly, even the universities accused of flouting peer review continue to sing its praises; they claim their own financial predicament is unique or that the sums involved are too small to undermine the whole system. That may be true. The bulk of the \$5 billion the federal government gives American universities is still distributed on the basis of peer review. But the lucrative expeditions organised by Catholic, Columbia and Georgetown have not gone unnoticed. According to Schlossberg-Cassidy and Associates, the number of universities retaining their services on Capitol Hill has climbed to about a dozen.

Blow a fuse—or be in hot water

Britain's department of the environment has come up with an idea which might just help bring the country's Victorian plumbing into the twentieth century—without risk of fatal explosions.

Ever since 1861, when Prince Albert died of typhoid contracted from contaminated water at Windsor Castle, Britain's water authorities have been obsessed with keeping the main water supply ("mains") totally separate from any other supply, and drinking water available through only one kitchen tap. Since early this century, the rule has been that all other supplies (hot water, central heating, etc) should come direct from tanks located in the building's loft, with their pressure being dependent solely on the "head" (ie, the height of the tank above the outlet tap).

Foreigners have done it differently. Throughout continental Europe, North America and Australasia, water systems run off the mains direct. This offers advantages to designers (especially in the

case of blocks of flats and public buildings). There is no need to provide space and pipework for each unit to have its own tank and access to it. It also results in steady pressure, eliminating the frequent need for shower pumps in bathrooms.

However, because of the greater pressure involved, mains-fed hot water systems can become dangerous if special precautions are not taken. Under Britain's present system, hot water tanks have a permanent vent to the atmosphere, so that pressure can never build up to dangerous levels. Mains systems, by contrast, are unvented and rely on a range of other safety devices which are normally effective in preventing accidents.

But not always. When safety precautions fail—no matter how infrequently—the result can be catastrophic. In 1982, such an explosion killed six children and a teacher in an Oklahoma school and injured 30 others.

Britain's water authorities are now proposing to change the byelaws which effectively banned unvented systems. The department of the environment's engineers have calculated that unvented systems (like the Oklahoma one) could cost four or five lives a year in Britain, unless special measures are taken.

The solution they are now proposing is to make it mandatory that a simple, fail-safe and maintenance-free device be fitted to existing safety valves and controls on all unvented systems—in other words, to fit a "fuse". This will be a disc, installed in the hot water tank, that melts or bursts before the water temperature and pressure reach danger levels, allowing the escaping water to be vented safely away.

Such unvented systems are not, of course, going to be made compulsory. And, in any event, discussion is likely to rumble on for years. However, Britons who do take the plunge will be able to relax in their baths undisturbed.

SCIENCE AND TECHNOLOGY BRIEF

Chemical switchboard of the brain

Ten years ago, scientists thought they understood how one nerve cell "talks" to its neighbour. No more mysteries surrounded the way nerve impulses (ie, tiny electrical messages) were passed from one nerve fibre to the next. The science had been all sorted out. Ten different chemicals, called neurotransmitters, were responsible for passing the electrical signal across the junction which separates any two nerve fibres from one another.

Their confidence was shattered when some 36 other chemicals, called neuropeptides, were also found to be involved in some way. These short chunks of protein are present in microscopic concentrations in the central nervous system (brain and spinal cord) and other peripheral nerve tissue. It is now clear that these also play an active part in transmitting messages from one nerve to the next. Classical neurotransmitters may be present in only two out of five nerve junctions. So scientists are now having to rethink the whole way the body and brain communicate.

The picture that is emerging is a vastly more complex one. Each peptide, for instance, seems to have several closely-related derivatives, which can be distributed throughout the nervous system. The odd thing is that, apart from playing an active role locally, each can also influence lots of nerve cells a long way off from where it is produced.

Like the classical neurotransmitters, the new peptides appear to be involved in a wide range of functions within the body, including learning as well as perception of pain. More curious still, each neuropeptide may also be able to do more than one thing. For instance, the opioid peptides (so named because they act like morphine, the opioid painkiller) appear vital for running almost every process in our bodies—from blood pressure to body temperature.

Mindboggling

Now for the tricky bit. Experiments show that quite different neuropeptides can operate at the

same site in the nervous system. More intriguingly, they seem to amplify each other's effects. Given that two different peptides can be found at any one nerve junction together with a single neurotransmitter, this means there are at least 1,000 possible combinations of such chemicals, with as many different effects on target organs or nerve cells.

Each neuropeptide seems to work by a kind of lock-and-key arrangement. Molecules of the peptide flow across the minute gap between one nerve cell and the next, binding themselves to an appropriately-shaped "receptor" site at their new location (see diagram). Several different types of receptor may exist for each neuropeptide. At least six receptors are involved in, say, transmitting pain signals to the brain; and each set is distributed throughout the brain and spinal column differently.

One line of thinking suggests that, on being stimulated by an electrical signal, each nerve cell actually secretes many different peptides. The distribution of receptors at the target brain cell then determines the specific response generated. Maybe.

Neuropeptides act differently to classical neurotransmitters. Unlike neurotransmitters, they can perform tasks, outside the body's nervous system. Some even act as hormones. Injecting one particular neuropeptide into the brain of a female rat that has been spayed, for instance, makes it behave as if were sexually normal again—an effect brought about by stimulating both nerve and hormonal pathways.

Chance discovery

Many of these neuropeptides were discovered, fortuitously, in the 1970s when some scientists had the bright (if odd) idea of seeing whether some of the regulatory peptides known to control processes in the gut and other parts of the body were also present in the brain. What they found was quite remarkable. For instance, the hormone insulin—best known for its role in control-

ling sugar levels in the blood—also has activity in the central nervous system.

Scientists had considerable difficulty detecting the peptides in the brain—present in dilutions of less than one part per billion—using the two hit-and-miss biological tests then available. The past decade, however, has seen new biotechnology tools developed that make neuropeptide detection far simpler.

One neat dodge for identifying neuropeptides is to look at "precursors", the large protein structures from which they are made. Biologists have a standard technique nowadays known as DNA-hybridisation, which allows them to home-in on those genes (cell components carrying the organism's hereditary factors) which provide the "blueprint" for manufacturing precursors. These precursor molecules are then decoded, and any unknown stretches of peptide that occur within them are checked for specific potency.

Once this trick was twigged, six new peptides (all associated with pain) were uncovered two years ago. Another neuropeptide was discovered by Japanese scientists the same way late last year.

Yet another nifty way of identifying neuropeptides has been developed recently at Scripps Clinic in La Jolla, California. Here the researchers use advanced "gene-splicing" tricks to reduce the donkey work. The approach involves cloning (ie, making exact biological copies of) the genes that carry the manufacturing instructions for the proteins found in the brains of rats. These are compared with clones of genes from the rodent's kidney and liver. The scientists can then work out precisely which proteins are unique to the brain—and hence which are potential neuropeptides. Synthetic equivalents of the possible neuropeptides are subsequently made and tested for activity.

Discovering neuropeptides is one thing; finding out precisely what they do is quite another. One attempt at developing a test to identify their respective roles has focused on the use of drugs or even antibodies (bits of an organism's immune system) capable of countering certain effects caused by neuropeptides. Another old standby is post-mortems on victims of various psychiatric diseases, to see if any abnormal concentrations or neuropeptides are present. Schizophrenics, for instance, seem to have unusual levels of opioid peptides.

More bizarre still is the use of

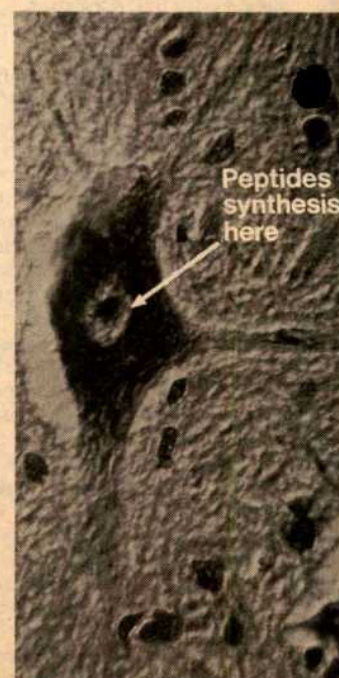
such animals as sea slugs or fruit flies to learn more about how neuropeptides control message-switching in the brain. These animals have relatively simple, but well defined, nervous systems. Injecting their brains with ill-defined neuropeptide makes them behave in interesting ways, providing clues to the specific nature of the peptide itself.

Emerging picture

Some of the findings tell us more about:

● **Pain.** The first neuropeptide, Substance P (SP), was discovered more than 50 years ago in extracts of horse intestine. It seems to work over enormous distances. For instance, SP may be responsible for sending pain signals between nerves all the way from the skin to the spinal and thence the brain. It may be involved in eliciting local effects on blood flow in the skin after the tissue has been damaged by, say, a burn. SP has been detected in the sensory nerve fibres that join the skin with the spinal cord, as well as parts of the spinal cord where pain messages are thought to be received. All in all, some 15 neuropeptides have been implicated in the perception of pain.

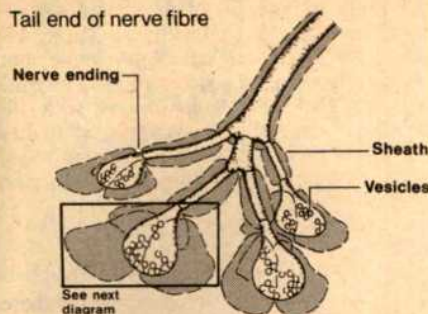
Apart from playing an active part in how we feel pain, SP may do lots of other things as well. More than 30 different groups of SP-containing nerve cells have been identified in the rat's brain. SP has also been spotted in parts of the retina within the eye, as



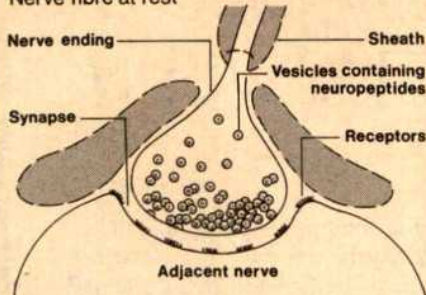
Nerve centre

Nervous talk—peptides pass the message

Tail end of nerve fibre

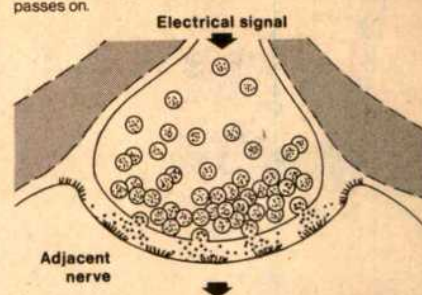


Nerve fibre at rest



Electrical signal arrives

Neuropeptides released from vesicles, cross the synapse, and bind to receptors on next nerve. The electrical signal passes on.



Source: Adapted from The Salk Institute Newsletter

cell as near blood vessels at the front of the head.

Heart disease. A neuropeptide called NPY (standing simply for neuropeptide Y) may be a triggering agent in coronary heart disease. This peptide was discovered 10 years ago in pig brain.

But at the Swedish Karolinska Institute, where much of the pioneering work on brain peptides has been done, NPY appears to be the most abundant and widespread of human neuropeptides. It coexists in the peripheral nervous system with noradrenaline, one of the classical neurotransmitters, which triggers contraction in blood vessels. One cause of heart attack may be muscular twitches in the walls of coronary arteries, blocking off blood supply to the heart. Nobody yet knows what causes the spasm. NPY may be that missing link.

Another neuropeptide called VIP (vasoactive intestinal polypeptide) is thought to act in conjunction with acetylcholine, the classical neurotransmitter. Acetylcholine is also found in the central nervous system but has a reverse effect on blood vessels to noradrenaline (ie, it causes them to dilate). The brain also seems to possess a complete set of enzymes capable of generating the peptide angiotensin which causes blood vessels to contract.

Eating. Yet another neuropeptide called CCK (short for cholecystokinin) is thought to make us feel satisfied after a meal. When hungry animals are injected with CCK, they stop eating. This is not expected to be CCK's only function, as the peptide has been found throughout the nervous system. Obesity may be associated with higher levels of one form of opioid peptide.

Memory and learning. The neuropeptide vasopressin appears to enhance learning and memory. When tiny amounts of vasopressin are injected into the

brains of rats, they remember to avoid nasty shocks much longer than when they are not on the drug. Other peptides can have the reverse effects.

Vasopressin has been implicated in long-term memory. While fragments of the hormone and brain peptide ACTH (adrenocorticotrophic hormone) enhance short-term memory—ie, for things that happened minutes ago. Doses of vasopressin in elderly patients, as well as those suffering from amnesia, have been claimed (controversially) to improve their ability to recall events in the past. When ACTH is injected into the bloodstream of normal healthy volunteers, it increases their attention and ability to discriminate between objects more easily.

Just to complicate matters further, vasopressin also seems to control blood pressure, as well as providing a link between the nerve and hormonal systems that are responsible for helping the body tap its energy stores.

Peptide factory

The brain manufactures its neuropeptides quite differently from the way it makes classical neurotransmitters. The peptide precursors are produced at the end of the brain cell nearest to the nucleus (see photo). Classical neurotransmitters, on the other hand, are made at the opposite end of the nerve fibre—ie, near the nerve junction.

The peptide precursors are processed in tiny bags within the brain cell called vesicles. These are tool kits containing sets of enzymes that break down precursor molecules at predetermined points along their chain-like structure. Meanwhile, the vesicles slowly move down the length of the brain cell until they reach the nerve end. A supply of neuropeptide sufficient for days of normal use can be stored at the tip of the cell.

Although peptides can trigger changes in nerve cells on their own, their main activity appears to be tied to that of the classical neurotransmitters. The neurotransmitters themselves act as simple on/off switches. They determine whether a message gets passed from one nerve to another and act extremely rapidly (ie, in hundredths of a second).

The neuropeptides, by contrast, seem to act more slowly. Research with Substance P and other neuropeptides suggests these brain chemicals produce their electrical changes in nerve fibres for periods lasting many seconds or even minutes. Their rate of action is controlled, not by the synthesis or release of these peptides at the end of the brain cell transmitting the message, but by the way they act on the receiving nerve cell. When the peptide combines with receptors on the adjacent nerve fibre, it can trigger or inhibit the synthesis of chemicals found in the cell membrane. Once free to circulate within the cell, these chemicals themselves set off another chain of biochemical events, ending in changes in the brain cell's permeability to electrical charge-carrying ions. The action is brought to a conclusion by a set of enzymes (known as peptidases) which break down the neuropeptides and sweep them away.

Promise of new drugs

There are plainly more neuropeptides to be discovered. And it is still not clear how exactly neuropeptides control our body's machinery. For instance, are these peptides controlled by the brain directly? Or are they triggered indirectly by local changes in, say, blood pressure (which could in turn be triggered by classical neurotransmitters controlled by the brain itself).

Drug makers are nevertheless keen to tap into this array of newly discovered potent pep-

tides. Some pharmaceutical firms have even tried to make exact copies of neuropeptides, but without much luck. They have proved unstable, being easily broken down inside the body by enzymes in the gut or blood. Other firms are trying to develop chemical equivalents to neuropeptides. Yet another approach, says Dr Les Iversen of Merck Sharpe & Dohme, is to find inhibitors for the peptidase enzymes that break down the neuropeptides at the nerve junction.

Eventually, it may be possible to find better ways of controlling abnormalities like Huntington's disease—a rare genetic disorder causing patients to suffer from uncontrolled movements and mental deterioration. Research suggests that Huntington sufferers have lower concentrations of CCK, SP and one opioid peptide. Such knowledge points the way towards a treatment for the disease.

Migraine sufferers might also find some comfort in the news that NPY had been discovered to be a possible trigger which makes blood vessels in the forehead contract (cause of migraine), and SP might be responsible for transmitting the messages of pain to the brain.

American drug firms Upjohn, Eli Lilly and SmithKline Beckman along with Britain's Wellcome are among those searching for a non-addictive pain killer based on synthetic analogues of the opioid peptides.

Many of these new drugs under development are being aimed at the healthy and wealthy as well as the sick. How about a drug to produce, say, the feeling of well-being? The Dutch firm, Organon, has an ACTH fragment which is supposed to induce contentment in old people who are depressed. Want to improve your memory? A drug based on a memory enhancer like vasopressin cannot be far away.



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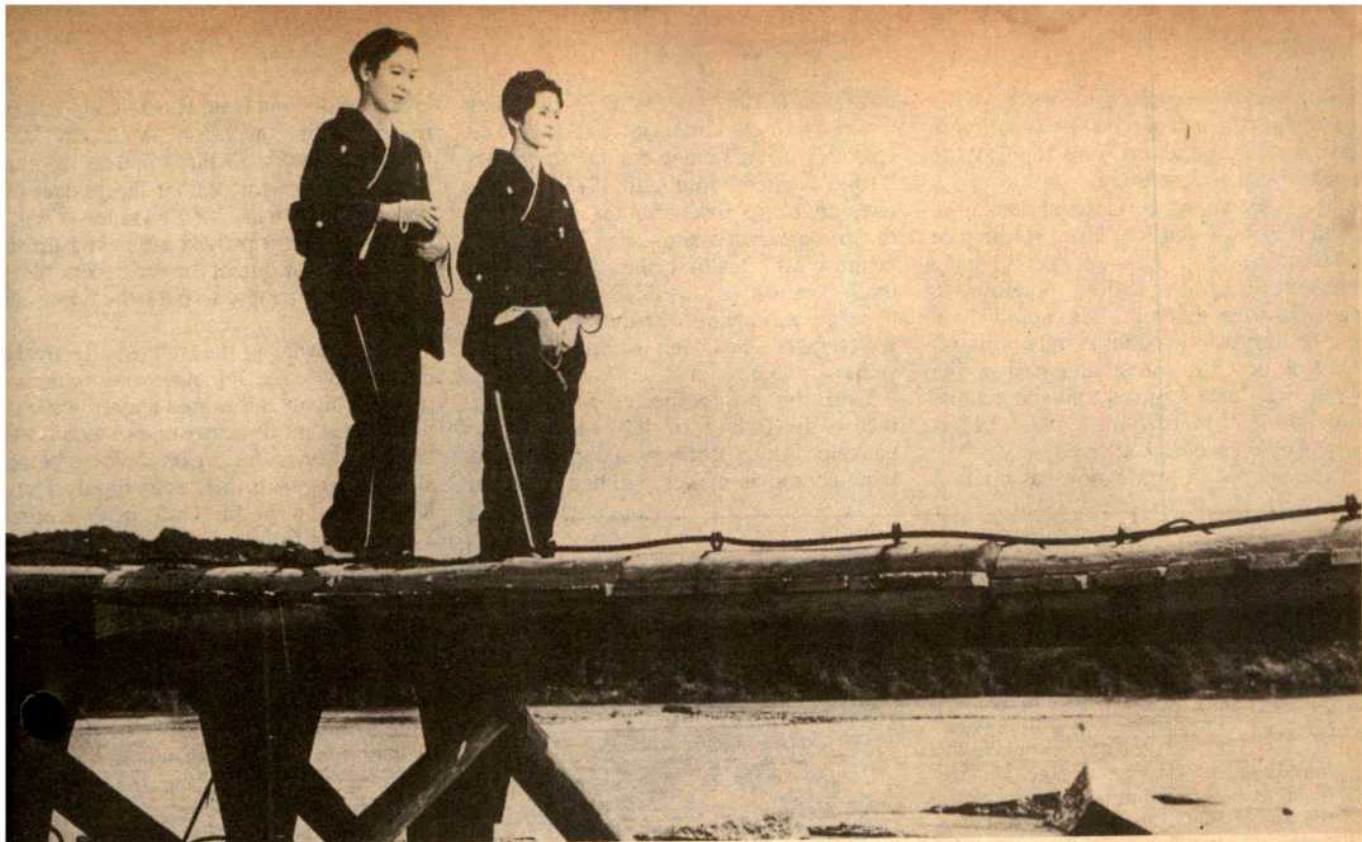
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Ozu's "Early Autumn"—one from the golden years

JAPANESE CINEMA

Not just a cinema of samurai

TOKYO, PESARO AND LONDON

As in Hollywood, film production in Japan has traditionally been dominated by a number of outsized companies, known as "majors". Of these, four have survived—Toho, Toei, Shochiku and Nikkatsu. Unlike Hollywood, antitrust laws do not prevent the Japanese majors from controlling all three functions of production, distribution and exhibition. This has given them near-monopoly powers.

Twenty-five years ago, all but one of the 500 films produced in Japan were made by the majors. By 1983, the picture had changed considerably. Total production last year amounted to 317 films, but the majors contributed only 116. Another 23 films were made by independent companies and 178 fell into the category of soft-core pornography.

As in most western countries, the number of cinemas has shrunk dramatically. Since 1960, they have contracted from 7,457 to 2,239. American films are now the principal attractions. "E.T." took

¥9.4 billion (\$39.5m) at the Japanese box office, compared with only ¥5.6 billion for the most popular domestic picture of 1983, "Nankyoku Monogatari". Only 3.4% of Japanese films made money last year.

The majors make little effort to appeal to their dwindling audience (a steep plummet from more than 1 billion in 1960 to a little over 170m by 1983). Outside the big cities, the movie houses are in bad shape and programme times, even in Tokyo, seem calculated to discourage attendance. The first and only show of the

evening generally begins around seven; only one cinema has a performance starting at 10, though there are several all-night flea-pits (effectively doss houses for those who have missed the last train).

There are few independent cinemas. The ATG (Art Theatre Guild) group has a dozen and the Seibu department store group, which wants to break into production, is running up a number of duplexes and triplexes. There is a small chain of five theatres in Tokyo's Shinjuku district, specialising in showing imported films, but even they are effectively satellites of Toho. Since the majors programme their cinemas almost entirely from their own product and imports, independent films have slim chance of being shown—unless they are pornographic.

Do the majors care that Japanese audiences are staying away? Not a lot. As big public companies, they have to try to make money for their shareholders, but it need not come from movies. Most of the majors are diversified. They have interests in hotels, pachinko parlours (where Japanese variants on fruit machines are

The last Japanese picture shows

	Total film production			Admissions m	Number of cinemas	Box-office gross Ybn	Adjusted for inflation Ybn*
	Majors	Independent and "porno"	Total				
1958	513	3	516	1,127	7,067	72.3	343.4
1963	335	28	363	511	6,134	77.7	291.0
1968	249	245	494	313	3,814	82.0	241.1
1973	208	197	405	185	2,530	92.7	194.1
1978	113	213	326	166	2,392	160.5	197.0
1983	116	201	317	170	2,239	186.3	186.3

Source: Unijapan Film. *1983 prices.

JAPANESE CINEMA

obsessively played), cosmetics and department stores. Toho owns vast tracts of land in Tokyo and also runs the Takarazuka all-girl opera troupe.

Because average production costs have soared from ¥40m to ¥300m in the past 10 years, the majors are not keen to make films, but they have to find something to show in their cinemas. The survival, in the countryside, of double-bills, long after this practice was abandoned in the west, may have ensured that some Japanese projects were filmed which otherwise would have been shelved.

The decline in production has made it

increasingly difficult for aspiring young directors to get financial backing. Toichiro Narushima made one admired film, "Time Remembered", in 1973, but has been unable to make another; nor, within the commercial cinema, has Toshio Matsumoto after his first film, "Pandemonium". Yoshishige Yoshida, who is trying to set up a Japanese version of "Wuthering Heights", has been inactive for many years.

Even the most respected Japanese directors have had to look abroad for backing. Akira Kurosawa, Japan's most famous movie-maker, filmed "Dersu

Uzala" with help from Russia and "Kagemusha" with money from Twentieth Century-Fox. Nagisa Oshima had to tap the British market for part of the budget "Merry Christmas, Mr Lawrence". With poetic justice, it proved a blockbuster in Japan and was one of the few recent films made by a Japanese to pack the domestic cinemas.

In the heyday of the studios, effective in the 1930s, the Japanese majors maintained a highly developed apprentice system. Assistant directors understudied established ones for years before being allowed to make their solo flight. The Kurosawa learnt his craft from Kaji Yamamoto; Oshima learnt his from Heigo Oba, director of the most successful weepie in Japanese movie history, a eight-hour, multi-handkerchief job called "What Is Your Name?".

Many directors subsequently turned away from their masters. The film Shohei Imamura, one of the foremost mainstream directors in Japan, in no way resemble those of his mentor, Yasujiro Ozu. The master/pupil relationship, however, provided a teaching environment peculiar to the Japanese film industry. One result was that magnificent flowering of Japanese movies in the 1950s, when the world learnt, to its astonishment, that the industry could field more than a dozen directors of world class.

The informal tutorial system exists no longer. Akira Kurosawa thinks that the Japanese cinema started to decline when the system was scrapped at the time of strike at Toho in the late 1940s. The unconventional view is not widely shared. For one thing, it would date the disintegration of the industry from a time when it had yet to enjoy its postwar golden age. Nevertheless, there is something in the idea. Would-be movie-makers now find it hard to get started because there is no nursery in which to make mistakes.

But hope has recently come from a number of surprising directions. Though the majors are growing less interested in films, to some extent their function is being assumed by other investors with no previous commitment to the film industry. These include the publishing house Kodansha and the property company Marugen, which provided 100% backing for the latest film of the veteran director Kaneto Shindo. Called "Horizon", it depicts the life of Japanese who have emigrated to the United States.

Other new sources of finance are the businessman Mataichiro Yamamoto, president of FilmLink International, who has sunk ¥20m into a new studio, and the fast-growing pornographic market, where companies like New Century and Jo Pack are providing young directors with opportunities to make films that the ma-

Japan Film Library Council

Courtesy of Mrs Kawakita



Tucked away behind Wako, the landmark store in Tokyo's Ginza district, is an unassuming suite of offices that is the hub of east-west film exchange. It is the headquarters of what used to be called the Japan Film Library Council and is today also known as the Kawakita Memorial Institute, in honour of the late Nagamasa Kawakita, whose widow, Kashiiko, now runs the show. A lady of charm and influence, she is much respected in Japanese film circles and has served on the jury of almost every big international film festival.

Mrs Kawakita joined the Towa distribution company as a secretary in 1929, married the boss and is now president of the group. The Japan Film Library Council is a separate, private organisation, set up in 1960 to promote cultural understanding, but there are close family and business connections with Towa. They have adjoining offices and Towa holds 30% of the capital. The rest is held by the giant Toho production and exhibition company.

When western films are shown in Japan and Japanese seasons are held in London, New York or Paris, the prints, subtitles and publicity are all prepared by the Japan Film Library Council, whose staff consists of five dedicated movie buffs, plus Mrs Kawakita. There is a close working association with the film centre of Tokyo's National Museum of Modern Art.

Film students from all over the world regularly visit the company's offices to make use of its archive material. This includes some 2,500 books and magazines, some dating back to the earliest days of Japanese cinema. Mr Akira Shimizu, general secretary of the company, donated many books from his personal library; others were bequeathed by former critics and collectors. There is also a library of 50,000 stills and a modest store of movies. The company owns copies of about 100 old European films, subtitled prints of 250 Japanese ones and the



negatives of 200 more. As a fire precaution, these are housed in the country under strict temperature control.

The Japan Film Library Council is a non-profit-making organisation, with 300 members who donate money each year. Individuals contribute ¥5,000, companies a minimum of ¥30,000, though many have given 10 times as much. The main sources of income are the estate of Mr Kawakita and an annual subvention of ¥5m from the Toho-Towa axis. When subtitled prints are prepared for showing abroad, the Japan Foundation also makes available up to ¥10m.

To date, the industry has been keen to support the company, as an economical way of promoting Japanese films abroad. How far that enthusiasm stems from personal respect for the Kawakitas and how far it will be affected by the decline in the cinema remain to be tested. Meanwhile, as a tribute to Mr Kawakita, who died in 1981, an annual award has been set up in recognition of services to the Japanese movie. The first recipient was the American critic Donald Richie; this year's winner was Akira Kurosawa.



Wakamatsu takes the prurience out of pornography

ers can no longer afford.

To the broad-minded, some of these have much to offer. Tatsumi Kumashiro's awkwardly named "Behind the Sliding Door of the 4½-tatami-mat Room" (it sounds better in Japanese) is as handsome as any big studio colour production and a lot wittier. And for those with strong stomachs, "Violated Women in White", Koji Wakamatsu, is an intense, 58-minute spellbinder about society's differing responses to sexual and other forms of violence.

In the mainstream, too, there is a handful of younger talents, who have made one or two films of great promise. These include Kohei Oguri, director of a much-liked study of poor people called "Fuddy River", and Yoshimitsu Morita (aged 33), whose off-beat comedy "Famille" was voted best film of 1983 by Japanese critics.

In the documentary field, Shinsuke

Ogawa (aged 49) has made an extraordinary 210-minute film about farming life in the remote village of Furuyashiki. Mr Ogawa is a political activist, who campaigned vigorously on 16mm film against the construction of the new Tokyo airport at Narita. Despite its length, his new film has been well received.

In addition, there is a substantial underground culture working outside the commercial cinema. Toshio Matsumoto, who has been unable to follow up his maiden film, "Pandemonium", in the conventional cinema, has made a score of avant-garde pictures for showing outside the circuits. When a festival of independent cinema (films made on 16mm, Super-8 and even on video) was held recently in Japan, there were 600 entries. Few could be shown in traditional cinemas, but they provide strong evidence that, on the frontiers of movie-making, experimentation is far from dead in Japan.

Pesaro film festival

Simonos on the Adriatic

Can westerners understand Japanese films? Mr Lino Micciché, who runs the annual film festival in Pesaro, on Italy's Adriatic coast, believes they can. To prove it, this year's festival was devoted mainly to a survey of Japanese films made between 1935 and 1983, accompanied by two stimulating round-table debates, over which the directors Keisuke Kinoshita and Tetsuya Oshima presided.

Are Japanese films slow, as westerners sometimes complain? Yes, but not because the directors know no better. More than one film in the festival contained

long, static conversation pieces, in which the dialogue is allowed to continue with no change of camera angle for minutes on end. This would be unthinkable in a western film; it would be considered unpardonably uncinematic.

According to Donald Richie, however, Japanese like lengthy shots because they are assumed to show more of the action than a sequence fragmented into many different shots. Also, as the anthropologist Massimo Raveri argued, long pauses in which nothing is said are seen not as empty moments, but as ones pregnant with possibilities. Or so he claimed.

Much of the debate at Pesaro centred on the degree to which Japanese films and culture should be regarded as unfathomably "other". In this context, Mr Richie's story of the reaction of a class of Japanese students to whom he showed "October", Sergei Eisenstein's silent film about the Russian revolution, is exemplary. One strong diagonal composition shows the proletariat pushing ever upwards against the tsarist forces. Westerners get the message at once because they read the picture from left to right. But the Japanese, who, according to Mr Richie, read the picture from right to left, thought it indicated a downhill course to defeat.

Other alien features? Do not, as a stiff-upper-lip occidental, be alarmed if the characters are always weeping—Japan's is "a culture of tears". Do not expect them to talk much—most conversation consists of body language anyway. And, above all, do not be misled by the violence of Japanese movies—it is all cathartic and not meant to reflect real life.

The trouble with this line, which, for some, made Pesaro 1984 a mixed success, is that it encourages intellectual resignation. If Japanese movies are so different, can a westerner evaluate them? Should he not quietly slip away and keep his enjoyment or frustration to himself? Annette Michelson of the London publishing

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JAPANESE CINEMA

house Scholar Press, who edited a book by Noel Burch on Japanese cinema, "To the Distant Observer", put the alternative view cogently.

When Japanese films like "Rashomon" and "Seven Samurai" were first seen in the west, what surprised people was how comprehensible they were. For all their superficial exoticism, they could still be interpreted in terms the west could understand. The different layers of reality in "Rashomon", for example, are not far removed from the world of Pirandello; the comic muster parade in "Seven Samurai" is like Falstaff drilling his troops in "Henry IV, Part II". Treating Japanese films piously as "the cinema of the other" may thus be a barrier to understanding them. This approach, which involves going back to first impressions, suggests a way forward. The point of a masterpiece like Yasujiro Ozu's "Tokyo Story" will be grasped much sooner by those who spot its relevance to their own lives than by those who think it quaint.

Western perspectives

Ballads and gates



The difference between the way the Japanese and foreigners see our cinema has always baffled me. Most Japanese films admired in the west have been samurai stories—because of their exoticism—whereas for modern Japanese audiences, they are irrelevant. The present is less pretty, which may be why foreigners are not so interested in contemporary films.

Tadao Sato

Tadao Sato is the most respected Japanese film critic. At the age of 54, he has written 75 books, 40 of them on the cinema. In his view, most westerners misjudged Japanese cinema from first acquaintance in the 1950s. After Akira Kurosawa's "Rashomon" won the first prize at the Venice film festival in 1951, Japanese period films became fashionable in Europe. But when "Gate of Hell" in turn won the top prize at Cannes in 1954, the Japanese fell about laughing. Teinosuke Kinugasa had made many fine films, in a career stretching back to the silent era, but in Japan "Gate of Hell" was considered one of his worst.

What impressed the west was its colour photography, which was so much more restrained than the gaudy Technicolor of the time. But, as Mr Sato points out, the Japanese could see beautiful colour in the theatre every day and did not regard its use in "Gate of Hell" as exceptional. Without it, the film would be a noveletish love story.

Westerners, he thinks, are still barking up the wrong tree. Last year, they gave



Imamura's version of "Narayama"

the prize at Cannes to another Japanese film not regarded so highly at home—Shohei Imamura's "The Ballad of Narayama". The Japanese prefer the more stylised version of the same story made by Keisuke Kinoshita in 1958.

Does that, though, make the west's taste wrong? Kinoshita's film, drawing on the traditions of Kabuki, is excellent, but need not invalidate the very different Imamura version, which mixes ribaldry with shamanism and Shinto.

National Film Theatre

Getting to know Naruse



Mikio Naruse, the Japanese director to whom London's National Film Theatre is devoting an extensive retrospective in July, was, at his best, an outstanding

artist. His finest films, among which might number "Flowing", "Lightning" and "Sounds of the Mountain" (all made in the early 1950s), achieve a compass that sometimes placed him in the echelon of Japanese film-makers.

After a lonely, poverty-stricken youth Naruse became an apprentice at the Shochiku studios and started making short comedies in 1930. From then until death in 1969, at the age of 64, he made 88 films, only about half of which survived. His early experiences are said to have made him particularly sensitive to the sufferings of the poor and of exploited women.

The sophistication and flair of his early 1930s work suggest that he developed a mature film sense almost from the first. Three of his best films from the mid-1930s ("Apart From You", "Nightly Dream" and "Street Without End") are still regarded as masterpieces. Though the first talkies were introduced in America in the late 1920s, their delayed arrival in Japan should come as no surprise. Many Japanese directors at that time alternated between silent and sound pictures, partly because of the lack of sound equipment in outlying areas and partly because of the opposition of *benshi*, whose function was to conduct running commentary on silent films and who rightly feared that talkies would put them out of business.

In the mid-1930s, Naruse broke away from established film conventions. In particular, he flouted the then accepted notion of "reverse-field" editing, or matching camera angles (designed to ensure that, in conversation scenes, the audience would be almost unaware of changing viewpoints). In Naruse's films of this period, the shots seem at first ill-matched as if the speakers are not actually facing one another. These stylistic experiments were most conspicuous in



"When a Woman Ascends the Stairs": Naruse's later style

Donald Richie

An American in Tokyo



That Japanese cinema is appreciated in the west is due principally to one man—a wise owl called Donald Richie, born 60 years ago in Lima, Ohio. Last year, he received a special award for promoting overseas understanding of the Japanese movie. With Joseph L. Anderson, he wrote the first, and still the best, general account of the Japanese film industry.

In his own right, he has published studies of Akira Kurosawa and Yasujiro Ozu. He has been a film critic, film maker and organiser of overseas retrospective seasons of the work of key Japanese directors. He has also written extensively on other aspects of Japanese society and been a novelist and essayist. In Tokyo recently, he talked freely to *The Economist* about his career.

His romance with Japan, which has cooled after nearly 40 years, began, he says, after the second world war, during which he was an ensign with the American merchant marine. He reached Tokyo with the army of occupation in 1946, when the city was largely rubble: at that time, he could stand in what was left of the Ginza and see clear to Mount Fuji. Though he knew little about movies, he wrote to *Pacific Stars and Stripes*, the

journal for American servicemen in Japan, pointed out that it lacked a film critic and asked for the job. He got it and, for the next two years, became the GI's guide to Betty Grable.

All over town, in those early postwar years, were threatening posters saying "No fraternisation with indigenous personnel". Get caught three times and home you go. This did not prevent Mr Richie striking up a friendship with a Japanese composer, who introduced him to a film set where Akira Kurosawa's "Drunken Angel" was being shot. For Donald Richie, then only 24, it was an eye-opener. In one day, it taught him that there was more to movies than Betty Grable's legs.

Between 1949 and 1953, he returned to the United States to get a higher education (at Columbia University). Columbia offered a course (unusual at that time) in film, in which he enrolled, with the firm intention of going back to Japan afterwards. In 1954, he did so—as film critic for the *Japan Times*.

He held that post for 14 years, during which time he taught himself spoken Japanese (to this day, he cannot write it). It was an exciting time for Japanese cinema. The leading directors were at the height of their powers and Mr Richie counts himself fortunate to have been on hand to record it.



"Sansho Dayu"—Mizoguchi at his peak

From the first, the director he most admired was Yasujiro Ozu, whose films are marked by an exceptional sympathy for ordinary people. His enthusiasm, he now admits, made his book on Ozu hard to write. The need to avoid sentimentality led him to destroy draft after draft. In the end, the book took 10 years to complete, whereas his study of the more intellectual director Akira Kurosawa was written in a year.

Kurosawa's films and Ozu's boast strong moral and ethical values—as do those of Robert Bresson, the western director Mr Richie holds in highest esteem. It is what he takes to be the absence of these qualities in the works of film-makers like Kon Ichikawa and Shohei Imamura that led Mr Richie to abandon books he had started to write about them.

He has now written what he says will be his last work on the cinema—a close study, exclusively for the Japanese market, of 10 famous films, ranging from "The Battleship Potemkin" to "Barry Lyndon". Why no book on Kenji Mizoguchi, whom most people would rate almost as highly as Ozu and Kurosawa?

Mr Richie says he finds Mizoguchi "a troublesome mix". "Whole sections of his career", he says, "were soggy." True, but between 1952 and 1954, in "The Life of Oharu", "Ugetsu Monogatari", "Sansho Dayu" and "Chikamatsu Monogatari", he directed four of the finest films ever made in Japan. An artist of this calibre, however uneven, surely deserves a writer who can do him justice.

Like a Rose", Naruse's first big success of the sound era, about a bright office girl who tries to reconcile her petess mother and a father happily hinating in the country with his mistress. This film, voted best of its year (1935) in Japan, placed Naruse in the forefront of the "everyday life" school of directors, along with Yasujiro Ozu, Yasujiro Shizu and Heinosuke Gosho. Few Naruse films from the war years

survive (the prevailing militarist code is said to have appalled him). One bright example is "Hideko the Bus Conductress" of 1941. This marked the first appearance in a Naruse film of the actress Hideko Takamine (who was eventually to star in 17 of his pictures). This first, slight, charming comedy of theirs, shot on location, contains a small feminist victory in that Hideko at last makes some "modern-style" travel announcements on the coun-

try route just as her bus is sold to a rival concern.

In the 1950s, Naruse entered his greatest period, employing less formal experimentation but an increasing mastery of characterisation, depicting the emotions and states of mind through a minute accumulation of glances, inflexions and, sometimes, "neutral" close-ups.

In two superb films, "Late Chrysanthemums" of 1954 and "Flowing" of 1956,

Naruse found in the geisha world an ideal setting for his views on women—the continual need for money to support a family or to send a son through college, the fear of having to descend to prostitution, the nagging intimidations of a male-dominated society.

One of Naruse's strengths is that he lets these themes emerge naturally from the dialogue, instead of imposing them didactically. The good-natured gossip, laughter and discussion among the central characters, coupled with Naruse's wit and irony, ensure that their stories are uplifting rather than depressing.

Yasujiro Ozu

Record of a cinema gentleman



What remains after seeing an Ozu film is the feeling that, if only for an hour or two, you have seen the goodness of everyday people; you have seen a few, small, memorable, unforgettable actions, beautiful because sincere, and saddening, too, because you will see them no more, they are already gone.

Donald Richie
An admirable documentary has recently been made by the Japanese company Shochiku to celebrate the life and work of Yasujiro Ozu, all but three of whose 53 films were made for that studio. Ozu is the director the Japanese themselves consider most Japanese. For years, they would not export his pictures for fear that western audiences would not understand them. In reality, the culture gap proved hardly to exist. Opinions differ about which were his best films, but few now dispute his stature as one of the greatest Japanese movie directors.

Donald Richie, in the remarks quoted



Ozu: he died, but . . .

Hideko Takamine continued to work with Naruse almost until the end, providing him with two subtly contrasted portraits in "When a Woman Ascends the Stairs" (1960) and "Her Lonely Lane" (1962). In the first, she is cast as a determined widow who runs a bar; in the second, she plays the feminist writer Fumiko Hayashi, whose works Naruse filmed often and whose early life, involving hardship and poverty, echoed Naruse's own. Was he a great director? Not, perhaps, as consistently as Ozu, but few will see these affecting, deeply personal films without being put in mind of him.

here, captures the flavour of Ozu's films, but what do they look like? Their formal characteristics include:

- Simple shots, often taken from an angle just a few feet above the ground;
- Few camera movements, at least in his postwar films ("Tokyo Story" contains three);
- A taste for still-life compositions, which intersperse the action like punctuation marks; and
- A ready acceptance of repetition ("Late Spring", "Late Autumn" and "An Autumn Afternoon" are all variations on a theme; so are "Good Morning" and "I Was Born, But . . ."; "Floating Weeds" is a 1959 colour remake of a story Ozu first filmed in 1934).

Ozu's films, especially those he made in the last 14 years of his life (the period that embraces the "seasonal" films, including "Early Spring", "Early Summer" and "Early Autumn", as well as "Equinox Flower" and "The Flavour of Green Tea Over Rice"), now play regularly in America and France. Other countries have been slower to catch on. The new Shochiku documentary, called "I Lived, But . . .", should help, though it is not itself as overwhelming as a first encounter with, say, "Late Spring" or "Tokyo Story".

The documentary consists of interviews with Ozu's family, friends, colleagues and disciples, coupled with short extracts from some of his films, 33 of which survive more or less intact. Some of the most informative discussions are with actors and actresses, who reveal how little scope he allowed them for individual interpretation. The strong-headed ones resented being treated as puppets; the more diffident were encouraged to give better performances than they thought they knew how.

One of the most moving contributions comes from the actress Kyoko Kishida.

At the start of her career, she played tiny part as a barmaid in "An Autumn Afternoon", the last film Ozu made before his death, of cancer, in 1963. His regret at being unable to work with her again is touchingly conveyed. In a way she got her wish more than 20 years later since it is she, in the documentary, who recites the poem Ozu wrote for his mother's funeral.

There are tributes in the film from other directors: from Keisuke Kinoshita who says that Ozu's films prompted him to seek a career in the cinema; from Yoji Yamada, who makes the popular Torii pictures and who has turned from loathing to venerating Ozu's work; and quirky one from Shohei Imamura.

As a young man, Ozu never went to see Japanese films (according to his brother). It was Thomas Ince's "Civilisation" that persuaded him to become a director. Later, his favourite movies included "The Heiress"—none of them like his own films. He once, however, fell out with his long-time scriptwriter Kogo Noda, over the melodramatic element in one of his least typical pictures, "Tokyo Twilight". Curiously, it was Ozu who wanted to play this up and Noda who tried, unsuccessfully, to dissuade him.

He and Noda were famous drinking companions. Their scripts were written the accompaniment of a formidable intake of liquor. When they went to the country for a three-months write-in, 100 bottles were laid in just to wet the whistles. They got foolishly, gloriously drunk (as snapshots, used in the film indicate). Out of it, however, came stories of uncommon subtlety and profundity about the unsung heroisms of family life. Japanese cinema has no more precious films than these.



"Late Autumn": seasonal variation

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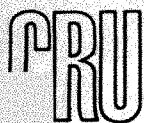
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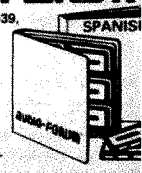
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ECONOMIC AND FINANCIAL INDICATORS 1

OUTPUT, DEMAND AND JOBS Some good news on economic growth: in the year to the first quarter of 1984, Canada's real gdp increased by 5.9% (compared with 3.2% in the year to the fourth quarter of 1983), Japan's increased by 5.3% compared with 3.6%), and Switzerland's increased by 2.9% (compared with 1.4%). Not such good news on unemployment rates: in May they stood at 13.5% in Belgium, 9.5% in France, 17.3% in Holland, and 13.0% in Italy. In Japan, industrial production increased by 11.8% in the year to May.

change at annual rate

	industrial production		gdp		retail sales		unemployment % rate	
	3 mths†	1 year	3 mths†	1 year	3 mths†	1 year	latest	year ago
Australia	+ 1.3	+ 6.2 (3)	+ 7.9	+ 6.1(12)	+ 2.7	- 0.6 (3)	8.9 (5)	10.3
Belgium	+ 4.3	+ 3.3 (2)	na	na	- 0.5	- 2.5 (1)†	13.5 (5)*	13.3
Canada	+ 3.6	+10.3 (3)	+ 3.3	+5.9 (3)	+ 7.8	+ 6.0 (2)	11.7 (5)	12.3
France	- 2.0	+ 0.8 (4)	+ 1.6	+1.2 (3)	+ 5.6	- 5.8 (3)	9.5 (5)*	8.4
Germany	- 4.5	+ 2.2 (4)	+ 2.0	+3.6 (3)	+ 2.8	+ 7.7 (4)	9.2 (5)	9.5
Holland	+ 6.9	+ 4.2 (4)	na	na	- 5.9	- 3.8 (2)†	17.3 (5)*	16.1
Italy	+ 4.1	+ 8.2 (3)*	+ 4.1	+1.2(12)	+10.5	+ 2.3(12)†	13.0 (5)*	11.8
Japan	+ 8.5	+11.8 (5)	+ 7.4	+5.3 (3)	+13.5	+ 3.0 (3)	2.6 (4)	2.7
Sweden	+ 3.8	+ 5.0 (4)	+ 9.2	+3.7(12)	- 7.5	+ 1.1(12)	2.7 (5)*	3.1
Switzerland	- 4.1	nil	(9) - 5.1	+2.9 (3)	+ 2.8	+ 2.4 (4)†	1.2 (4)*	0.8
	- 5.9	+ 1.9 (4)	+ 3.5	+2.8 (3)	+ 3.2	+ 2.7 (5)	12.7 (5)	12.4
	+10.3	+13.0 (5)	+ 9.7	+8.0 (3)	+ 5.8	+ 3.9 (3)	7.5 (5)	10.1

value index deflated by CPI

PRICES AND WAGES Confounding predictions of economic overheating, America's annual rate of consumer-price inflation fell for the second month running in May; it now stands at 4.2%. The annual rate of increase in wholesale prices went up in Holland from 2.7% in December to 5.0% in January; but it fell in Sweden from 0.3% in February to 9.1% in April. Growth in hourly earnings slowed in Canada to 1.1% in the year to March, compared with 7.3% in the year to February.

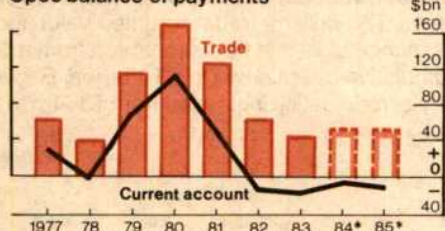
change at annual rate

	consumer prices*		wholesale prices*		wages/earnings†	
	3 mths†	1 year	3 mths†	1 year	3 mths†	1 year
Australia	- 1.6	+ 5.9 (2)	+ 5.2	+ 6.9 (1)	+15.7	+ 7.2(12)
Belgium	+ 7.1	+ 7.2 (5)	+ 4.1	+10.9 (4)	- 3.1	+ 6.1 (3)
Canada	+ 3.9	+ 4.8 (5)	+ 7.0	+ 4.4 (4)	+ 8.8	+ 6.1 (3)
France	+ 7.9	+ 7.7 (5)	+14.0	+14.5 (3)	+ 7.9	+ 9.9 (1)
Germany	+ 2.8	+ 2.8 (5)	+ 2.2	+ 3.4 (4)	+ 0.6	+ 3.1 (1)
Holland	+ 4.7	+ 3.7 (5)	+ 7.8	+ 5.0 (1)	nil	nil (4)
Italy	+10.1	+11.6 (4)	+13.5	+11.4 (3)	+15.2	+13.2 (3)
Japan	+ 5.2	+ 2.3 (4)	- 0.3	- 0.7 (4)	+10.4	+ 5.1 (4)
Sweden	+ 8.7	+ 8.9 (5)	+ 9.6	+ 9.1 (4)	+ 2.9	+ 3.9 (3)
Switzerland	+ 4.7	+ 3.2 (4)	+ 5.4	+ 3.7 (4)	- 1.3	+ 6.1(12)
UK	+ 6.5	+ 5.1 (5)	+10.8	+ 6.4 (5)	+ 4.7	+ 7.8 (4)
USA	+ 4.8	+ 4.2 (5)	+ 3.9	+ 2.7 (5)	+ 3.5	+ 3.2 (5)

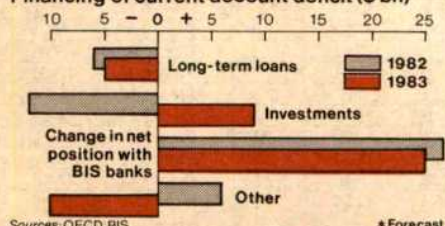
Hourly wage rates in manufacturing except Australia, weekly earnings; Japan and Switzerland, monthly earnings; Belgium, Sweden and USA, hourly earnings; UK, monthly earnings for all employees.

FOCUS: FINANCING OPEC Lower oil prices and a 6% fall in the volume of oil exports cut the Opec countries' aggregate trade surplus by \$19 billion between 1982 and 1983. Their current-account deficit increased by less, thanks to savings on service payments abroad. The chart shows that they financed the 1982 deficit with \$27 billion of net capital inflows from foreign banks—a combination of run-down deposits and extra borrowing. And they could still afford some capital outflows—long-term loans to developing countries, and \$12 billion of portfolio investment on foreign bourses. But in 1983 they had to cut their lending slightly, and raised \$9 billion by selling (mostly American) securities.

Opec balance of payments



Financing of current-account deficit (\$ bn)

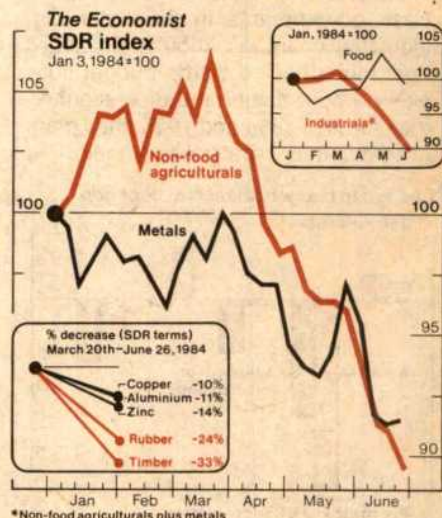


Sources: OECD, BIS

* Forecast

THE ECONOMIST COMMODITY PRICE INDEX

Industrial commodity prices have dived during the past three months, because of fears of rising interest rates and slower growth. Timber has been particularly sensitive, falling by a third since March as demand for new housing in the United States has slackened. Strikes in West Germany and levelling out of American car sales have hit demand for metals. The shortage of zinc has eased; aluminium producers are reducing output. Rubber prices in Malaysia have sunk to 17-month lows. Heavy rains boosted rubber production earlier this year, creating a surplus in the market estimated at 50,000 tonnes.



1980=100	Jun 19	Jun 26 (provisional)	% change on one month	% change on one year
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Dollar index				
All items	85.6	83.8	-7.0	- 1.2
Food	97.0	94.4	-6.7	+13.5
Industrial				
All	75.1	74.1	-7.4	-13.9
Nfa*	81.0	79.2	-8.0	-17.6
Metals	70.7	70.2	-6.9	-10.7

Sterling index				
All items	144.3	143.8	-4.8	+12.0
Food	163.7	162.1	-4.4	+28.5
Industrial				
All	126.7	127.2	-5.1	- 2.5
Nfa*	136.6	136.0	-5.8	- 6.6
Metals	119.2	120.6	-4.6	+ 1.3

SDR index				
All items	107.3	105.8	-6.0	+ 2.3
Food	121.7	119.2	-5.6	+17.3
Industrials				
All	94.2	93.6	-6.3	-10.9
Nfa*	101.5	100.1	-6.9	-14.7
Metals	88.6	88.7	-5.7	- 7.6

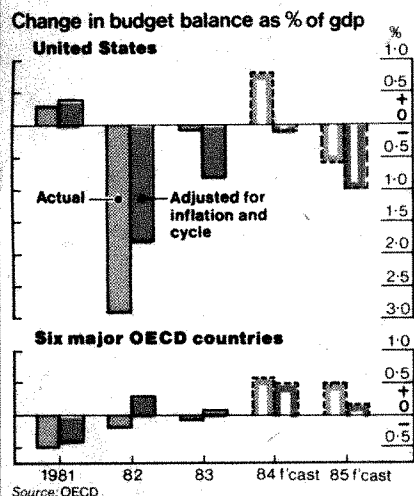
Gold				
\$ per oz	371.50	370.25	-4.0	-10.8
Crude oil (spot) Arabian light				
\$ per barrel	28.20	27.60	-2.8	- 3.2

*Non food agriculturals

Footnotes applicable to all tables. All figures seasonally adjusted except where otherwise stated. *Not seas. adj. †Average of latest 3 months compared with average of previous 3 months, at annual rate. n.a. Not available. Small figures in brackets denote month of indicator.

ECONOMIC AND FINANCIAL INDICATORS 2

FOCUS: BUDGET DEFICITS Economic recovery usually improves a government's budget balance, because stronger economic activity raises tax revenues and, by cutting unemployment, reduces national spending on social security. But the chart shows that America's budget balance moved slightly further into already-deep deficit in 1983, in spite of strong economic growth. After allowing for the effects of recovery and inflation, the adjusted or "discretionary" increase in the deficit was much worse—around 0.8% of gdp. This year and next, OECD forecasters expect the discretionary deficit to worsen again, even after the spending cuts agreed in congress. By contrast, governments in the other big industrial countries should, on average, move back towards budget surplus on both actual and discretionary measures in 1984 and 1985; they plan to tighten their fiscal policies again.



WORLD BOURSES The increase in American banks' interest rates did not surprise or greatly upset Wall Street; but the repeal of the withholding tax on foreign investors was applauded, so the market edged up. Higher American interest rates, because they may soon mean higher British rates, were more upsetting in London.

Stock price indices

	June 26	1984 high	1984 low	one week	one year	record high	31/12/83 in local currency	% Change on terms
London	803.9	922.8	770.3	-3.4	+11.7	-12.9	+3.6	-3.4
New York	1122.8	1286.6	1101.2	+0.6	-7.1	-12.8	-10.8	-10.8
Canada	2224.7	2585.7	2187.8	-0.1	-7.7	-14.4	-12.6	-16.8
Australia	656.5	787.9	646.3	+1.2	+8.6	-16.7	-15.3	-18.9
Japan	783.8	876.6	735.5	+0.5	+19.5	-10.6	+7.1	+4.9
Hongkong	927.9	1170.4	871.1	+0.1	-1.7	-48.7	+6.1	+5.6
Belgium	142.7	156.3	135.3	+0.1	+10.4	-8.7	+4.8	+2.4
France	170.3	181.7	155.6	+2.5	+36.8	-6.3	+8.7	+2.8
Germany	994.3	1096.5	979.5	+0.7	+5.1	-9.3	-3.8	-5.9
Holland	123.0	147.2	118.7	+2.7	+10.9	-16.4	-4.9	-7.1
Italy	212.4	229.6	192.1	+5.5	+14.3	-27.3	+10.9	+7.1
Singapore	900.4	1071.9	900.4	-2.3	-6.7	-16.0	-10.1	-10.1
South Africa	1031.6	1105.3	962.6	-1.3	+6.5	-6.7	+6.8	+6.8
Sweden	1482.7	1594.5	1388.0	+3.2	+12.5	-7.0	+2.6	+2.6
Switzerland	357.8	388.7	355.4	-0.3	+9.3	-23.8	-6.8	-6.8

MONEY AND INTEREST RATES American banks raised their prime lending rates by half a percentage point to 13%; Canadian banks raised theirs to 12½%. Australian banks lowered their prime rates from 15¼% to 14¾%. Broad and narrow measures of monetary growth in West Germany both accelerated in April.

	Money supply		Interest rates % p.a. (Tuesday, except bonds which are previous Friday)							
	% rise on year ago		Money market		Commercial banks		Bond yields		Eurocurrency	
	Narrow	Broad†	Overnight	3 months	Prime	Deposits	Gov't	Corporate	Deposits	Bonds
	(M1)				lending	3 months	long-term		3 months	
Australia	+10.9	+12.0 (4)	13.00	13.30	14.75	12.80	14.15	15.15	12.81	13.56
Belgium	+ 9.0	+ 8.7(12)	8.95	11.90	14.75	11.50	12.35	12.37	11.50	na
Canada	+ 6.0	+ 3.1 (5)	10.75	11.90	12.50	11.95	13.89	13.92	12.06	13.41
France	+11.8	+11.6(12)	11.63	12.25	12.25	12.25	12.95	14.17	12.25	13.35
W Germany	+ 4.5	+ 4.0 (4)	5.50	6.15	8.00	5.60	8.21	8.11	5.91	8.12
Holland	+ 1.2	+ 4.7 (3)	5.63	6.25	7.50	6.25	8.62	8.78	6.19	8.10
Italy	+12.9	+13.2(12)	16.63	17.00	17.00	11.50	15.38	14.73	15.25	na
Japan	+ 2.3	+ 7.7 (4)	6.13	6.34	5.50	3.50	7.48	7.61	6.19	7.76
Sweden	na	+ 7.0 (4)	11.50	12.00	11.00	11.65	11.00	12.25	12.25	na
Switzerland	+ 0.7	+ 6.0 (3)	9.44	4.56	7.50	3.25	4.71	5.08	4.56	5.95
UK	+13.1	+ 8.3 (4)	8.25	9.50	10.25	9.28	11.54	12.18	9.50	12.16
USA	+ 6.8	+ 9.5 (5)	11.13	10.95	13.00	11.56	13.57	14.80	12.06	13.66

Other key rates in London 3 mth Treasury Bills 8.9%, 7-day Interbank 8.2%, clearing banks 7-day notice 6.0% Eurodollar rates (Libor): 3 mths 12.1%, 6 mths 12.6%.

† M2 except Australia, Canada, Switzerland, U.S.A., W. Germany, M3, Japan M2 + C.D.s, UK EM3. Definitions of interest rates quoted available on request. Sources: Chase Manhattan, Chase Econometrics, Banque de Commerce (Belgium), Ned Creditbank, Credit Lyonnais, Svenska Handelsbanken, ANZ bank, Credit Suisse First Boston. These rates are indicative and cannot be construed as offers by these banks.

TRADE, EXCHANGE RATES AND RESERVES The dollar's trade-weighted value increased 1.4% during the week, the yen's fell 1.2%, and sterling's fell 0.8%. The French balance of visible trade improved from a \$543m deficit in April to a \$10m surplus in May; that helped to push France's 12-month cumulative deficit down to \$3.1 billion. Between February and March, Holland's trade surplus increased from \$10m to \$488m, and Italy's trade deficit increased from \$664m to \$961m.

	Trade balance** \$bn		current- account balance \$bn	currency units per \$		3mth forward rate	Discount/ premium %pa	Trade-weighted† exchange rate		currency units		foreign reserves†† \$bn	
	latest month	latest 12 months	latest 12 mths	latest	year ago	per \$		latest	year ago	per £	per SDR	April	year ago
Australia	- 0.41 (5)	+ 0.3	- 5.6 (5)	1.16	1.14	1.15	Prem 4.51	81.4	79.0	1.57	1.20	8.2	6.4
Belgium	- 0.05(11)	- 2.3	- 0.5(12)	56.7	51.4	56.6	Prem 0.77	89.7	92.7	76.9	58.6	4.3	5.0
Canada	+ 1.37 (4)	+14.3	+ 0.7 (3)	1.31	1.23	1.31	Prem 0.06	88.3	91.6	1.78	1.35	2.5	3.6
France	+ 0.01 (5)	- 3.1	- 2.0 (3)	8.55	7.67	8.55	Disc 0.30	66.0	69.2	11.6	8.82	19.3*	17.1
W. Germany	+ 1.07 (4)	+15.7	+ 1.2 (3)	2.79	2.54	2.74	Prem 6.18	124.8	128.0	3.77	2.88	46.2	45.5
Holland	+ 0.48 (3)	+ 3.7	+ 3.6(12)	3.14	2.87	3.09	Prem 5.93	114.4	117.1	4.25	3.24	10.2	10.8
Italy	- 0.96 (3)	- 7.2	- 1.1 (9)	1715	1515	1728	Disc 3.29	48.4	51.4	2323	1772	18.9	16.1
Japan	+ 3.94 (4)	+35.7	+25.8 (4)	237	239	234	Prem 5.81	155.9	147.2	321	245	25.4	24.6
Sweden	+ 0.16 (5)	+ 2.1	- 1.1(12)	8.21	7.64	8.20	Prem 0.15	67.0	67.6	11.10	8.44	3.6	3.4
Switzerland	- 0.20 (4)	- 3.6	+ 3.0(12)	2.33	2.10	2.28	Prem 7.47	144.5	151.4	3.15	2.40	13.0	12.3
UK	- 0.44 (5)	- 1.9	+ 2.0 (5)	0.74	0.65	0.74	Prem 2.75	79.0	84.1	—	0.76	10.4	11.7
USA	-12.19 (4)	-95.6	-58.4 (3)	—	—	—	—	133.9	125.1	1.35	1.03	23.5	23.0

† Bank of England index 1975=100 †† excluding gold. ** Canada, Australia, Japan, France and UK imports fob, exports fob. All others cif/fob. * February.



United States shares set to recover lost ground.

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Thatcher steps out



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Westpac
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The Economist



Oops

Margaret Thatcher slips towards ineptitude, page 11.
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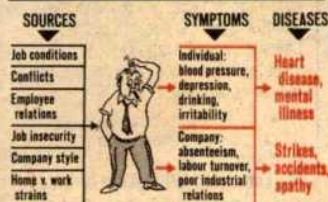
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LETTERS

Voting

SIR—You are right to point (June 23rd) to the unfairness of our electoral system, which gives no representation in Europe, and little at Westminster, to those who support the alliance parties.

I suggest the alliance parties should fight the next general election on a single issue: they should promise that, if elected to office, or if they have significant power in a coalition, they would introduce an announced system of proportional representation, and they they would then hold another general election within three months of its introduction.

Any voter who believes that the present system is unfair could then vote for the alliance in the first election, and revert to the party of his choice in the second.

Easry, Kent

JOHN CRAVEN

SIR—In Northern Ireland, where elements of the minority reject democracy in favour of violence when they feel that their views are unheard, they have proportional representation. On the British mainland, where the "minority" believes in democracy, they are refused it. Is might right?

Newbury,
Berkshire

ALEC CAWLEY

Sudan

SIR—Having just returned from a fact-finding mission to Sudan, I was dismayed to read your piece entitled "Lashland" (June 23rd). Except by criminals, Islamic law is greatly welcomed by the people of Sudan. They can sleep easy at night and leave their doors open; women can walk the streets unafraid of molestation, and the menfolk spend their time and money on their families instead of on drink. There is a complete sense of civic security unknown for years. British journalists do not comprehend the inner workings of the Moslem mind, and the fact that the Holy Koran is at the root of the Islamic ethos.

There is no civil war in the south. There is a determined attempt by Libya and Ethiopia to destabilise Sudan as part of the Soviet Union's grand strategy to surround the Arabian oilfields, wherein the whole of north-east Africa is but one chess-board square (with Afghanistan

another).

A glance at the map should be sufficient to reveal that the south is far too big to be administered from Juba alone, and that is the reason for decentralisation, albeit that some use it to stir up unrest. You could almost say that our system of counties and county councils is "divide and rule", but the idiocy of that would be patent.

Brighton,
Sussex

LOUIS FITZGIBBON

South Africa

SIR—An irritating misapprehension evident in your reports on South Africa is to equate "English-speakers" with liberal ideas and "Afrikaans-speakers" with reactionaries. This is nowhere visible here, and indeed it is difficult in practice to distinguish who belongs to these two language groups, as so many of us speak both tongues—with a South African accent. I, for instance, am a direct descendant of the 1820 British settlers, but at least half of my blood relatives by now carry, like myself, Afrikaans names and many do not have English as their first language.

There are as many Afrikaners in opposition and radical politics as "English", and while our most liberal province is the Cape (Afrikaner), perhaps our most diehard rightist is Natal (90% English). Moreover, while the historical South African experience of the British was of racist reactionaries, this apprehension is reinforced by contact with members of the very large group of recent immigrants from the British Isles—the only people who really stick out here as "English-speakers".

Linden,
South Africa

P. DE WET

Local empires

SIR—If Israel belongs at all in the company of your "Little local empires" (June 16th), it should not be placed next to South Africa, because its non-Jewish citizens enjoy full and equal rights. To paraphrase your leader: "Most Christians in Lebanon, unlike most Afghans, wanted their invader. . . . Reporters can poke their noses anywhere and report. And if the freely elected Knesset, the Israeli people, and its fourth estate do not like what

the government did in Lebanon, it would probably have to change tack. Not quite the same with Mr Chernenko in Afghanistan."

New York

ROBERT GOLDMAN

SIR—You include Mexico in Central America. Webster gives two definitions for Central America: one geographic, from the isthmus of Tehuantepec to the isthmus of Panama; and one political, from Guatemala and Belize to Panama. Mexico is not part of Central America, except for its five south-eastern states, nor should it be, given the economic and political realities.

According to World Bank estimates, Mexico is nine times more populous than Guatemala, the largest Central American country, and three times larger than all seven countries combined. Its economy is seven times larger than all Central America's combined. The fact is that Mexico and the Central American countries play in different leagues. Even though you choose to call Mexico "a quarter democracy", it has had constitutionally elected governments ever since our 1910-20 revolution, a record of stability which cannot be found in Latin America, let alone Central America.

Alexandria,
Virginia

A. SCHWEDHELM

Hmongs

SIR—Your San Francisco correspondent (May 5th) gives a balanced and factual account of the Hmongs, whereas N. C. Tapp (Letters, May 26th) gives a fashionable, sentimental view held by some recently arrived European volunteers working in Indochinese refugee camps in Thailand.

I am a former administrator in Laos and help with camps here in Thailand which shelter Hmongs arriving from Laos now occupied by Vietnamese.

N. C. Tapp speaks of their culture of "immeasurable antiquity"; the material signs of this are what your correspondent in San Francisco charitably calls "batting to wrest a living from the Laotian forests". This battle is the most destructive form of shifting cultivation—slash, burn, cultivate and move on—which has reduced thousands of square kilometres of former forested mountains in the highlands of Laos, in North Vietnam near the Noire river, and in the eastern part of north Thailand, to a sterile stony near-desert.

A main activity of the Meo (as

they were called in Indochina) was growing opium and selling it to all buyers. Those who remain in their homeland are still doing so, but Thailand has made great efforts to replace this by other, less harmful crops.

It is true that they had no written language until Catholic missionaries wrote it down in the Latin alphabet. They have remained a closed, endogamous society, uninterested in schools or anything that would open their society to the outer world.

I never heard of any Meo (Hmong) doctors or pilots in Laos, and N. C. Tapp may not appreciate that the term *gouverneur*, as applied in French Indochina, meant a notable given official status but little power. Incidentally, Laos was a French protectorate, not a colony. There was no "governor".

Bangkok MICHEL DE ROUEMONT

Texas

SIR—The labels "liberal" and "conservative" no longer mean anything in American politics. There are plenty of "conservative" Democrats in Texas who voted for Mr Lloyd Doggett (June 9th). We, however, have no presidential candidate for whom to vote, as Mr Reagan is a reactionary spendthrift whose policies will lead the country to fiscal bankruptcy, and Mr Mondale is a socialist spendthrift whose policies will lead the country to fiscal bankruptcy.

Mr Kent Hance was the candidate of farmers and ranchers in Texas who want to employ unlimited "wetback" Mexicans at less

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EXECUTIVE FOCUS

COMPTROLLER

United Nations Agency operating in the Middle East with 17,000 staff and an annual budget of over US\$250 million expended on relief, health and education services for Palestine refugees seeks Comptroller for its Finance Department based in Vienna, Austria.

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The International Service for National Agricultural Research (ISNAR), with its headquarters in The Hague, Netherlands, was established in 1980. It is one of 13 international agricultural research organisations which are supported by the Consultative Group on International Agricultural Research (CGIAR), an association of official and private donor agencies, co-sponsored by FAO, UNDP and the World Bank.

ISNAR's working language is English. It strengthens national agricultural research capacity of developing countries by providing assistance in research planning, research organisation, research management and in formulating research policy. Its multi-disciplinary staff conducts reviews of national research programmes and organisations, provides training, arranges workshops and conferences, disseminates information and does research on research systems.

Dr William K. Gamble, ISNAR's first Director General, retires in 1985 and his successor would be expected to have

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If required, additional information will be provided by ISNAR, PO Box 93375, 2509 AJ The Hague, Netherlands.

LETTERS

than subsistence wages. Mr Doggett is the consumers' advocate who believes in subsidies not only for the rich (to which Mr Ronald Reagan's, Mr Phil Gramm's and Mr Kent Hance's ideology is limited), but also for the poor. Mr Doggett's official win by 1,300 votes does not mean Texas has turned "liberal"—and we still understand conservative to mean one who conserves.

Dale,
Texas MRS FREDERICK E. ROMBERG

Identity crisis

SIR—American libertarians may, as you say (June 16th), be "fighting the indignity of being obliged to carry identification cards". However, driving licences have long been used here as a de facto, almost obligatory, identification system. Unlike credit cards, they carry the bearer's address and, in most states, a photograph. Too bad for non-drivers: my local Sears, Roebuck store requires a driving licence and a car registration if you want to pay by cheque.

I once presented my alien's "green" card, issued by the United States government, as identification to claim a parcel at the post office. The clerk looked at it, then said, "Don't you have a driver's licence?"

Brooklyn,
New York ANTHONY LLOYD

Ulster

SIR—Your own poll (June 2nd) shows that only 30% of the British people feel that Northern Ireland should remain part of the United Kingdom. Why not comply with public opinion? Having swallowed the camel in admitting that "Ulster" is not wanted as a part of the United Kingdom, why strain at the gnat of an orderly withdrawal in co-operation with the Irish government, as was done in 1922 and again in 1937?

You admit that it costs about £1.5 billion annually to keep "Ulster" British (ie, 20% of the total cost of a twin Channel tunnel). Would not these funds be more profitably invested in assisting the establishment of a 32-county Ireland with close ties to Britain than in futile efforts to maintain a six-county artificial statelet founded on sectarian hate?

Fort Lauderdale,
Florida MICHAEL F. O'DRISCOLL

SIR—Mr Leslie Stewart's comments on the Mori poll on Northern Ireland (Letters, June 23rd) are distortions of the truth. The six counties of modern-day Ulster did not exist in the first world

war as a separate place, but were part of the ancient province of Ulster, which also included the counties of Cavan, Donegal and Monaghan, now in the Republic of Ireland. So his figure of 25,000 dead in the first world war must include dead from those three counties which he conveniently ignores.

As to participation of the men and women of post-partition Ulster in the second world war, why does he not mention that conscription did not apply to Northern Ireland as it did to the rest of the United Kingdom? I, like everybody else, honour the dead who gave their lives in the fight against Hitler, no matter from where they come, but I also remember that far more citizens of the Republic of Ireland fell in the fight for freedom than did those of Ulster, despite Ireland's so-called neutrality.

Chepstow,
Gwent, BERNARD JARVIS

Russian scientists

SIR—In "Science and the Russians" (June 16th), I was astonished to read: "American scientists concede that Moscow still boasts the greatest concentration of mathematical talent in the world. . . ." Whatever Moscow may boast, most mathematicians would agree that the greatest concentration of mathematical talent in the world is in America. The Soviet Union perhaps still rates third, after western Europe; meanwhile, Japan is advancing rapidly.

Downsview,
Ontario ALLAN TROJAN

Futurology

SIR—As a presenter of Worldview '84, I would like to comment on your article "Doom postponed" (June 16th). Few futurists claim that they can predict the future. What we can do, however, is systematically explore potential futures. There are a number of techniques that can be used—including mathematical models, technology assessment, scenario development, Delphi analysis, brainstorming and others. Futures research can be a valuable tool in understanding the possible consequences of our actions.

Most of us also recognise that the only common thing about forecasts is that, once they are made, they are probably wrong. This is especially true of normative forecasts, the type used in Global 2000.

A normative forecast predicts

what will occur if the forces in place continue unabated. For example, if you are standing in the middle of a road and I see a bus coming, my forecast will be that you will be run over. The forecast is made in the hope that you will consider alternative policy paths and take action—in this case, get out of the road.

Global 2000 served a noble purpose. It started people thinking and talking about many of the world's problems. While it is virtually impossible to trace a direct cause-effect linkage, we can hope that Global 2000 may help in formulating solutions. That, in itself, is of value.

Olympia,
Washington FREDRIC KROPP

Pregnancy testing

SIR—Your article on pregnancy testing for mongolism (June 16th) highlights our twentieth-century obsession with perfection. Have we forgotten our horror at Hitler's attempts to eliminate the handicapped and races of people that he deemed inferior? And now, in a decade where there is so much alleged concern for human rights and liberties, we find it reasonable to end the development of a child in its mother's womb because of a diagnosed deformity.

While I grant that caring for a handicapped child can cause anguish, it is also one of the greatest expressions of love and of our humanity. If we close our minds to this, and view the developing child in scientific terms of perfect or imperfect, then one can only wonder how long it will be before a foetus is aborted because advanced screening tests have indicated the much hoped for male is female.

Helsinki MARK RICHARDS

Heart ache

SIR—Your article, "The spasms that can stop the heart" (June 2nd), mentioned Dr Paul Sherwood's belief that spasms precede clots. My own work on skeletal muscle spasm shows a clear relationship between spondylosis (degenerative changes in the spine) and skeletal muscle spasm. Changes in the spine irritate spinal nerves (neuropathy) which, in turn, cause the structures supplied by those nerves—including cardiac muscle—to become supersensitive, according to a basic and universal physiologic principle known as Cannon's Law of Denervation.

Health is the equilibrium of three entities: the body or host;

the disease agent; and their environment. Upset this balance and you have disease. Medical science neglects the important flow of electricity along nerves, or the "trophic factor" which keeps the body in tune. When a part of the body is deprived of this factor, it "atrophies" and becomes supersensitive to all kinds of stimulation.

One would not fly in an aircraft designed by an engineer who was ignorant of the universal law of gravity. Yet Cannon's Law is little known in the medical profession.

Lay magazines such as *The Economist* have an important role to play by bringing valid observations such as Dr Sherwood's to light. All too often these are summarily dismissed by the medical profession.

Vancouver DR CHAN GUNN

Apollo Computer

SIR—In your article on computer stocks (June 16th), Apollo Computer is listed as having an offer price of \$22 a share versus a price on June 12th of \$23 a share.

In fact, the correct offer price is \$14.67, adjusted for a 3-for-2 stock split on February 29, 1984. On that basis, the price on June 12th of \$23 exceeded the offer price by \$8.33, or 156%.

Chelmsford, JOHN W. NEWTON
Mass. Apollo Computer inc.

Stockhausen

SIR—Your article which refers to whistling Stockhausen (June 9th) reminds me that Sir Thomas Beecham, on being asked if he had ever played any Stockhausen, replied that he thought he had once trodden in some.

Melbourne MARTIN HC

This wondrous language

SIR—Mr Hopkins (Letters, June 16th) is not alone in discovering that some English words like "chuff" may have meanings diametrically opposed to each other. There are other nice examples. Thus Webster's Dictionary defines "cleave" as "to adhere firmly and closely", as well as to "split: to separate into distinct parts".

I am reminded of the days when, trying to become acquainted with this wondrous language, I was utterly bewildered by a sign in a Cardiff chemist shop which read: "We dispense with accuracy".

Fribourg, HARRY KRAUS
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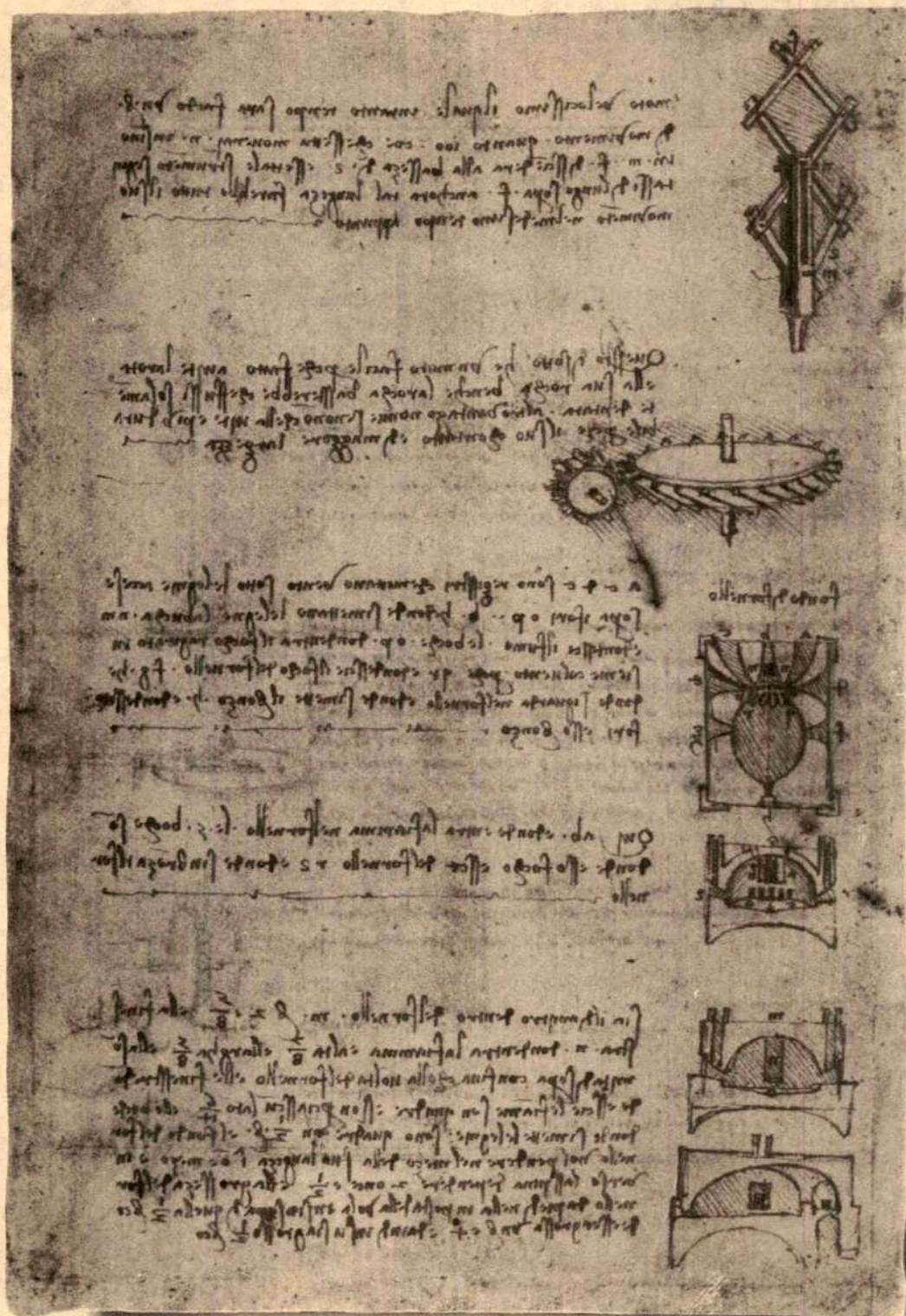
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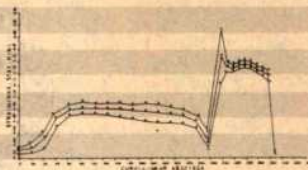
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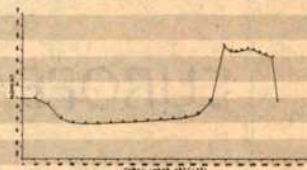
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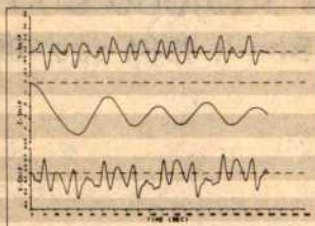
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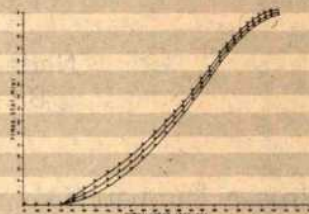
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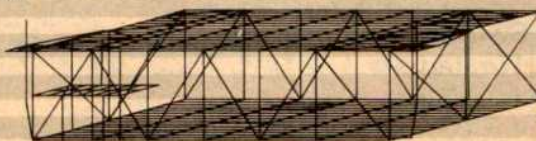
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July, 1984



Thatcher steps out

Mrs Thatcher's second government is stepping out to become Britain's most inept since the war. The mishaps, mistakes and omissions which have characterised its first full year now have ministers in difficulty with farmers, miners, peers, local authorities, EEC allies,

even City financiers. Nothing seems to be going right and what goes wrong is increasingly portrayed as somebody else's fault—a sign of ministers losing their grip. Mrs Thatcher, apostle of strong government and emphatic leadership, still holds the helm, but the rudder is taking on a life of its own.

The government's strengths are still considerable. Its economic strategy, set out at the last election and reasserted in Mr Nigel Lawson's first budget, is at bottom sound. The new government has a radical chancellor, a reformist home secretary and is producing new thinking on education, transport, health and the social services. Privatisation and deregulation are continuing, give or take some pitfalls along the way. Nobody doubts Mrs Thatcher's sense of direction.

Like Harold Wilson

Yet Mrs Thatcher has lost her ability to move in that direction without slipping on a banana skin and falling on her face. She looks alarmingly like Mr Harold Wilson in the closing years of his 1966 administration.

Her two most recent U-turns demonstrate what has gone wrong. The government this week decided it would postpone the abolition of the present Greater London Council and six metropolitan councils for a year in the face of a predictable but brilliantly executed campaign by the GLC's leaders to save it. The policy of removing the elected regional tier of local government was sensible. Any move to leaner administration had to start with this. Yet the implementation of the policy has been dreadful. Mrs Thatcher's slap-dash attitude to local government led her to ignore the abolition issue for four years, only tossing it into the 1983 election as a radical afterthought. Neither content nor timing was thought out.

This delay, followed by haste, necessitated an interim bill to fill the gap between next year's supposed elections and the earliest that abolition could be achieved in 1986. The bill—effectively substituting an appointed Tory council for an elected Labour one—enabled the GLC's leader, Mr Ken Livingstone, to

portray himself as a hero of democracy. No steps were taken to counter his subsequent £3m advertising campaign. Ministers first rejected any future democratic body for London, then backed down and promised one for education. They insulted the house of lords, implying that abolition should be regarded as effective once the bill has its second reading in the commons.

This was surely a policy requiring the collective judgment of supposedly the wisest political minds in the nation—the cabinet. Instead, it has been a matter of Mrs Thatcher and her obedient environment secretary, Mr Patrick Jenkin, trying to second-guess each other through rushed and tortuous bilateral meetings—with Mrs Thatcher, as so often these days, not quite in intellectual control and Mr Jenkin clinging to his job. The same approach has been followed in the rate-capping process, shortly to explode in ministers' faces. Mrs Thatcher has turned a vote-winner into a policy so unpopular that there was an above-average swing against the government in London in the recent Euro-elections.

A different instance of the same malaise is the prime minister's handling of the EEC negotiations and related agricultural reform. The deal she brought back from Fontainebleau was not the one she adamantly—and correctly—put before the country a year ago. It was neither a permanent settlement of the budget nor did it embrace a fundamental reform of the common agricultural policy. It was merely another, slightly better, slightly less temporary deal reducing Britain's budget contributions, won by cashing in one of Britain's two main EEC bargaining levers—no increase in the community's revenue.

The pressures on Mrs Thatcher to settle for so shallow a change in EEC practice were on her throughout the winter and spring from both Europe and America, and were magnified by her own foreign office. To put Europe into repeated crisis over relatively small amounts of money, she was told, was undermining the alliance at a time when its agenda was full with the need to stand firm against Russia, cope with the dangers of debt and high interest rates, co-operate in the Middle East and so on. But another reason for Mrs Thatcher's accepting second-best was her notoriously short attention span. She became bored with the Europe affair and was content to accept a quick deal to appease the one government institution occasionally

able to get the better of her, the treasury. Once the Tories in the house of commons had said they would not support any action by the government to withhold British payments to the EEC budget, she quickly decided to take the pressure off her European antagonists at that relatively early stage. Once again she had not thought through her negotiating strategy.

Mrs Thatcher must also now pay the price of having left her former farm minister, Mr Peter Walker, to keep British agriculture's nose deep in the subsidy trough for four years. Even modest success in EEC budget bargaining required lower support for food surpluses. The milk quotas row, like the impending cereals row, was predictable and a shrewd cabinet would have made due preparation for it years ago. For the prime minister now to blame the farmers for not predicting the consequences of their past greed is hypocrisy: her own farm minister goaded them into it.

The gap between bridge and engine room

Mrs Thatcher does not despise political skills. Indeed, she is proud of her own: carefully packing her government with potential rebels and her honours lists with backbenchers and journalists. Yet, despite her assiduous attention to "my backbenchers", she has always regarded the formulation of policy as a separate exercise from its implementation. The former is a marshalling of evidence and its analysis, involving governmental rather than political judgment. This can be done within an enclosed—at times almost monastic—circle of advisers. Implementation is seen as a consequential and largely technical exercise in securing cabinet, parliamentary and public approval, left to her chief whip and her leader of the commons. It is a message rung down from the bridge to the engine room.

Wise prime ministers are careful not to flaunt the dictatorial powers granted them by the British constitution. They pay attention not just to presentation but to the political processes through which decisions must pass to gain public consensus. They respect the residual pluralism in the constitution—collective cabinet responsibility, local government, the house of lords, the status accorded to pressure groups and the press—as a counterweight to their own power. Mrs Thatcher seems to regard such pluralism as over-ridden by her large majority at the last election. She is the boss and should be allowed to do what she feels is best. Only when, as last week, the house of lords summons up its remaining powers and calls a halt does she admit defeat.

Despite Mrs Thatcher's reputation for ideological politics, she does not find it easy to think long-term, except in vague terms on the structure of the economy and the confrontation with communism. Her immediate difficulties are all the result of previous short-term palliatives in areas which bore her: her neglect of Northern Ireland; her unconcern over the future of local democracy; her casual attitude to the environment; her belief that trade union power will wane if she ignores it; her appeasement of the farming lobby.

Nor does she value help in adversity. Her cabinet is more dominated by its prime minister than any since the war. Its key positions are occupied by men drawn from

a narrow group of essentially professional politicians. The impending departure of Mr James Prior removes the last senior minister with what might be termed an independent political following. Ministers do not represent a range of aptitudes or party interests but are selected for supposed administrative ability in executing the prime minister's will, a will they often find it hard to divine.

This has its advantages. Government business is spared the constant rows and factionalism which were a feature of Mrs Thatcher's first administration. But she suffers from the occupational hazard of all egocentric leaders: having rid herself of dissident ministers, she is increasingly inclined to confuse independence of judgment with disloyalty. The rows of 1979-83 have been replaced by a plague of leaks and buck-passing by individual ministers as they jockey for her affections. Cabinet responsibility was traditionally rooted in the principle of unanimity agreed after the resolution of conflicts. It is now an unconvincing umbrella over the many bilaterals and mini-committees by which Downing Street tries to control Whitehall.

Like Edward Heath

Mrs Thatcher is not the first prime minister to be a bad impresario of government. Like Mr Edward Heath, she has difficulty in conducting relaxed reviews of strategy with colleagues at the end of a hard day. It is a human failing, but in any accident-prone prime minister a serious one. Mr Heath at least had a team of senior political staff to whom he turned for frank advice. Mrs Thatcher has no such team. No 10 Downing Street, the epicentre of Britain's political life, is a curiously empty place. The prime minister flaps round its corridors like a solitary hawk looking for prey. Political advisers come and go—some of them bright enough, but never true confidants. Real power rests with those shadowy triumvirates just visible behind all presidential leaders. In the 1979 first government, there were Mr (now Sir) Clive Whitmore and Mr Ian Gow, MP, private and parliamentary secretaries respectively, and later Mr Cecil Parkinson, the party chairman. Today's triumvirate comprises Sir Clive's successor, Mr Robin Butler together with Mr Bernard Ingham, Downing Street press secretary, and Mr John Wakeham, MP, the chief whip. Nowhere in this entourage is the wisdom of experience or the leavening of an independent view. It is a team executive rather than political in its skills.

Since much of what is wrong with the government is rooted in the prime minister's own personality it is hard to say what can be done about it. She may need taking down a rung, but the relevant rung is out of reach of the others on the ladder. The danger is that, as before the Falklands war, a simmering rebellion in the party and a steady advance by Labour at the polls will render the prime minister even more aloof, embattled and rash in her decisions. If Mrs Thatcher is not prepared to open up government to advice from colleagues—and non-colleagues—then revolt will spread from the lords to the commons and from the miners to the local authorities. It will be no good Mrs Thatcher blaming the country. Ultimately the country will blame her.

Getting da out of nyet

Or how to save Russia from rejecting its own space-war talks proposal

As Marx—Groucho, not Karl—might have put it: neither America nor Russia seems to want to belong to an arms control club that would admit the other as a member. Since last November, when the Russians stalked out of the two Geneva talks on long-range and medium-range nuclear weapons, each side has fired off a barrage of proposals on everything from chemical warfare to a comprehensive nuclear test ban; only none of them happens to be the thing the other side wants to talk about at the moment. Are negotiations on banning anti-satellite weapons (Asat), suggested by the Russians on June 29th and accepted next day by the Americans, going to end up as another spent shell on propaganda battlefield?

If the Asat initiative keeps going as far as the talks proposed for Vienna in September, it will be because the propellant is three parts self-interest to one part common interest. Although well ahead in the opinion polls, President Reagan would feel even more confident of re-election in November if he could present himself to the voters as a peace-maker and not the war-talker his Democratic opponent will try to paint him. The Russian lurch into intransigence since November has given Mr Reagan his chance to look the amiable one compared with Mr Chernenko. Getting the Russians back to the bargaining table would add the finishing touch.

Congress is also pushing the president to talk. Last month the senate gave the go-ahead for America's first full test of an Asat weapon this autumn—but only if Mr Reagan tries for a deal with the Russians which would get Asat technology under control. The "Star Wars" programme of anti-missile defences, which Mr Reagan timed last year would free the world from the threat nuclear attack, is also under fire. Congress is unhappy at the \$26 billion down-payment needed just to get research under way, and worried because so many American scientists think the idea won't work anyway. Even the president's men are divided about the wisdom of a space race with the Russians. So Mr Reagan has back-tracked far enough to express a willingness to talk.

Russia's President Chernenko doesn't have an election to worry about. Yet he would like to avoid a new technology race against a fitter and richer America. The lumbering Soviet economy will spend more money on weapons if it has to. On the other hand, with Russia's next five-year plan already on the drafting board, there are plenty of other things to spend the roubles on, and things much more popular with ordinary citizens. In May Russia's chief soldier, Marshal Nikolai Ogarkov, made his pitch for a shift of resources to keep up with Star Wars and to match Nato's new precision-guided conventional weapons. What Mr Chernenko needs is a

good reason to say no to his generals.

Self-interest has pushed both sides to talk about talks. They also have a shared interest in an Asat deal—the need to safeguard their communications and spy-in-the-sky satellites from attack. But the Russians, who have already tested their own crude anti-satellite weapon, want to prevent America from testing its more sophisticated one. So they have called for a moratorium on testing while the talking goes on. That, the Americans point out, leaves the Russians with an Asat monopoly—and a powerful incentive to use any negotiations for waffling rather than for working out a checkable agreement. The Russians also want to spin the Asat talks into a wider ban on all weapons in space, whereas Mr Reagan still wants his Star Wars mission to continue.

Make Russia take the responsibility

The main problem this week, however, is the Americans' public insistence that when they turn up for the Asat talks in Vienna in September they will also put the stalled Geneva missile talks on the agenda. This is not strictly the "precondition" that the Soviet news agency Tass claims to be unacceptable: the Americans say they want to talk about missiles as well as anti-satellite devices, but they do not insist that the Russians agree in advance. Still, with the Russians in their present mood, there is an obvious risk that they will call the Asat talks off rather than hear the word "missiles" mentioned.

In fact, the two things are logically linked to each other. The anti-anti-missile deal the Russians want presupposes that each side will know how many attacking missiles the other side is allowed to have. Vice versa, the new missile-limiting treaty that Mr Reagan puts first on his agenda makes sense only if neither side has to fear that the other can put up an anti-missile defence. Since Asat talks are the first opportunity for many months to begin untying the arms-control knot, the Americans are right to use them to encourage the Russians to co-operate in the unravelling. But nobody gains if Russia throws the whole ball of string out of the window.

Now that they have publicly made their point about linkage, the Americans can let the argument revert to the quieter channels of normal diplomacy. Let them correctly but privately point out to the Russians that missiles and anti-missiles are two sides of the same coin, and that if there are to be talks about one it is reasonable to argue that there ought to be talks about the other. If the Russians then refuse to turn up in Vienna, they will be responsible for the failure. They will have to explain why, as Britain's Sir Geoffrey Howe put it in Moscow this week, they can't take yes for an answer.



Mr Prior's whimper



... is sadly the right way to say goodbye

Mr James Prior is shortly to leave the office of secretary of state for Northern Ireland not with a bang but a whimper. Mr Prior has been the best Ulster secretary since the advent of direct rule in 1972, despite his crude exile to the province by Mrs Thatcher in 1981. He has established an able team of young ministers and fought the ritual contests with politicians of all sides in the province. After three years at the job, he is well placed to cash in his chips and demand co-operation from all, including his cabinet colleagues, in taking some risks to see his present initiative through.

The outline of a modest new initiative—Mr Prior denies it is even that—can be seen behind the opaque phraseology used during Monday's commons debate on Dublin's New Ireland Forum report. From the ashes of the report's "joint authority" proposal it is hoped will arise the baby phoenix of closer security arrangements, enhanced by liaison in the economic and legal spheres under some sort of joint parliamentary umbrella. As a quid pro quo, the mainly Catholic Social Democratic and Labour party in the north should be prepared to co-operate in the Protestant-led assembly, and thus make at least a move in the direction of Mr Prior's rolling devolution. This might enable Protestant politicians, and some Catholics, to assume some responsibility for government in the province, and some of the obligations as well as the patronage of power.

The security arrangements are clearly the most important, and most controversial, aspect of such progress. What is expected is a joint-patrol area, say 10 miles on either side of the border, in which police and troops of both nations could move under each other's operational supervision. This would have to be supported by an extension of joint court and joint interrogation arrangements. It is a marginal infringement of both sides' sovereignty, but is a small price to pay for increased effectiveness of anti-IRA policing. It would be a first step to securing the Catholic policing of Catholic areas, the only long-run weapon against community support for the IRA.

Such progress will require hard bargaining in Belfast and stiff nerves in London and Dublin. It is best left until after the summer marching season. It must now survive Mr Prior's imminent resignation and a gap while his successor, almost certainly Mr George Younger from the Scottish Office, works himself into the toughest job in British politics. Ulster's politicians will have an excuse to return to their laagers, while the man who enticed them out watches from his farm. This would be absurd. If Mrs Thatcher cannot hold Mr Prior in office, then she should at least back his policies in absentia. She must ensure that Mr Garret FitzGerald in Dublin and Protestant politicians in the north are not given a way off Mr Prior's hook.

Olympic mistake



Mr Chernenko's Olympic boycott is having strange results

The most astonishing resistance to political interference is developing among sports stars in eastern Europe. After Mr Chernenko's Olympic boycott, some east European athletes have asked the Olympic authorities to allow them to compete in Los Angeles as individuals. Like the Americans who asked to compete as individuals in Moscow after Mr Carter's ban in 1980, they will be refused. The Olympic authorities are still terrified of insulting governments, but athletes now aren't.

In 1980 the various plans for an alternative Olympics from western governments foundered because athletes scorned them. In 1984 Comecon's proposed alternative Spartakiad is running into the same trouble ("I would have retired last year if I had known, instead of training all winter"). The Russians had supposed that a well-publicised Spartakiad would show the communists' champions triumphantly bettering the times of more genuinely drug-tested Olympic winners in almost every

event; today it might show how many eastern folk-heroes have abruptly stopped training, which is not surprising. On the capitalist tennis circuit Czechoslovakia's clean Mr Ivan Lendl is allowed to become a Florida millionaire; whereas world-beating East German Olympic champions have been painfully stuffed with drugs, and given nowhere to go. "It is curious", says a sympathetic Briton, "that in Nato in 1980 and the Warsaw pact now only the Rumanian government has supported the civil liberties of its athletes".

The odd beneficiary of the Chernenko boycott will be South Africa. Black African governments walked out of the 1976 Montreal games at the deliberately inconvenient last moment to protest because New Zealand had recently played rugby against South Africa. As the English played rugby in South Africa this year, the chairman of the Supreme Council for Sport in Africa wants the Africans to walk out of Los Angeles unless

Britain is banned, but he has a small problem. The Kenyan government boycotted the Olympics in 1976 and 1980; and Kenya's great athletes, secure in public esteem, now refuse to take any notice of their authorities whatever. In Oslo last year Norwegian officials tried to tear the numbers off Nairobi-banned Kenyan competitors, and were told by all athletes to buzz off.

As a compromise, many African countries are suggesting that they should stay Olympic this year, but that the meeting of the Commonwealth Games council—to be held in Los Angeles during the Olympics—should bar England from the 1986 Commonwealth Games in Edinburgh. Since a Commonwealth Games in Scotland without England would be commercially ludicrous, the Scots sports authorities may suggest a “friendly games” which anybody could attend even if his government ordered him not to. This would be the right pattern, but Edinburgh's new Labour council would hate it.

After sourpusses had forecast that most British athletes would resent the quick naturalisation of Miss Zola Budd, she is instead blooming with full support in the International Athletes Club, which is Britain's most successful multiracial organisation. Other newspapers are cross that one British newspaper is giving Miss Budd so much money, but athletes like this precedent. Locker-room lawyers say that Magna Carta grants “merchants” the right to ply their trade anywhere; assuming that athletes can be called merchants (after all, they earn enough), today's young stars will not vote to be ruled by governing bodies which tell them what not to do and where not to earn money. In British track and field athletics, power is passing to the misnamed Amateur Athletics Association, which is likely eventually to allow British athletes and their agents to run their own shows and earn individually as much money as possible anywhere.

The two main sports now run in this way by the athletes themselves are golf and tennis, to the great advantage of communist countries' sporting millionaires (Mr Lendl, with properties in Florida and Connecticut, is back in Czechoslovakia's Davis Cup team after remitting the negotiated equivalent of income tax to Prague) and white South Africans (23 of them are at Wimbledon this week, playing against representatives of all east European countries and a score of third-world ones). At poor Henley last week (because rowing is an Olympic sport, therefore one with a governing bureaucracy) South Africa's national eight could win the Thames Cup only in the vests of an English club each had joined, although they wore Springbok socks.

Everybody as in tennis and golf

All TV-attracting individualist sports will move during the next few years into grand-prix circuits like golf and tennis, and the Olympic fathers will have to decide at Los Angeles whether they will disband their bossy bureaucracies quickly enough to have any say in them. There will be problems. Top golf has passed into very decent hands since it became governed by the players, but poor countries don't get coaching. Tennis's revolt against authority briefly made eunuchs of those necessary authorities called umpires. But Olympic sports have the much greater scandal that they have become drug-ridden while subsidised bureaucracies (and therefore subsidising governments) ruled them, because diplomats fear that stricter drug tests would insult drug-arranging government officialdoms like East Germany's. Presidents Carter and Chernenko have hastened the day when the golden youth of the world will no longer elect or obey sports officials who kowtow to Supreme Councils for Sport anywhere. This is one kind point for both their epitaphs.

The long Marchais

Leading nowhere. Unlike Italy's Natta?

The leaders of western Europe's Communist parties appear to enjoy copper-bottomed job security. The French party's secretary, Mr Georges Marchais, who during 12 years in office has presided over a halving in support from around a fifth of the French vote to 11% in last month's Euro-election, has just been confirmed in office. It is an astonishing, if probably temporary, survival. The 12-year term of Italy's late Communist leader, Enrico Berlinguer, who marched his party up the hill to 33% of the vote in 1976, but fell back to 30% last year, was just as striking.

When change comes at the top, it seems to be more of the same: witness the choice last week of Mr Alessandro Natta, an elderly ex-Stalinist, to succeed Berlinguer. Yet the impression of simultaneous artery-hardening in the Italian and French parties is misleading. The Natta succession masks the painful evolution still

going on within the Italian party. The Marchais reprieve covers an attempt by at least some French Communists to imbibe the lesson of why the Italian party does nearly three times as well as they do.

Take the Natta selection first. Italy's Communist party has for two decades been reaching out of its working-class origins to win over voters from the part of the Italian middle class which is tired of decades of Christian Democratic rule. Such people now account for nearly half the Communist party's support, and Mr Berlinguer ably straddled the divide that separated them from the old Stalinists. The argument within the party has swung the liberals' way, as the failings of the Soviet Union have become all too apparent and as Italian workers have come to value their democratic freedoms and washing-up machines. Mr Natta is another straddler, whose selection has merely postponed a



power-struggle between the two wings.

Now consider the meanderings of the French Communists. In 1976 Mr Marchais tore up the decades-old dogma that dismissed democracy as "bourgeois", and proclaimed himself a Eurocommunist. Two years later he changed his mind, renewing his admiration for Russia. Since the left-wing victory in 1981, the Communists have been acting as an ineffectual brake on President Mitterrand's attempts to reverse out of the cul-de-sac into which the eager socialism of his first two years had taken him. Throughout, the French Communist party has remained narrowly working-class and has been run under the rigid disciplines of "democratic centralism".

The worry that their traditional working-class ghetto is being bulldozed away by the Socialists is making

French Communists think again. For the first time the muffled sound of argument could be heard behind the closed doors of last week's central committee meeting, despite a politburo report which whitewashed Mr Marchais. But France may have passed the time when communism can regain its lustre.

The same may be true of Spain, where distrust of the Communists dating back to the civil war of the 1930s has helped to keep even that ultra-revisionist party's support down to at most a tenth of the vote, while Mr Felipe Gonzalez's Socialists reap the left-of-centre electoral harvest. Only in backward Portugal does a Stalinist redoubt of around 18% of the vote survive. Except for the chameleon in Italy, which may be genuinely blending into its democratic background, history could be rolling past western Europe's communists.

The blackballing of RTZ

Prepare ownership rules for prospectuses, not as an afterthought. That should be the British government's lesson from Enterprise Oil

Something good may yet come out of the Enterprise Oil flotation. To recap, the British government put these nationalised oil assets up for sale. Rio Tinto-Zinc, the mining multinational, applied to take up 49% of the shares and would have got all it asked for because the issue was undersubscribed. But Mr Peter Walker, the energy secretary, said no; RTZ could have only 10% of the shares. The City screamed foul. Underwriters left holding unsold shares accused the referee of moving the goalposts. RTZ then went into the market to buy 29.9%. A chastened Mr Walker said it had always been clear that, "after the issue was made, there would be perfectly free dealing in the shares", subject to normal merger and takeover rules.

The City was confused by this affair because the government was confused. Mr Walker aimed for incompatible objectives. Enterprise Oil cobbled together oil assets from the nationalised British Gas Corporation. It was an unknown, untried company under an unknown management—not an animal that the average fund manager could make head or tail of. So it was always possible that a company like RTZ, which had the experience to assess Enterprise Oil and existing assets to make a nice fit of it, would be the keenest bidder.

The government was not, though, interested only in getting the best price for Enterprise Oil. It also wanted to create an independent oil and gas production company, and had recruited Enterprise Oil's management and staff for that purpose. Somehow the government had concluded that this was the best way of making the oil business more competitive. Mr Walker, not for the first time, put his own interventionist streak ahead of the national interest he intended to protect: he failed to see that RTZ-Enterprise would be a less puny competitor against the six (formerly seven) sisters than Enterprise Oil alone.

None of this need matter much if the government

learns lessons from it. This week's parliamentary row was, for typically British reasons, a muddle. The fact that so much was left with the underwriters means that the £392m going to the taxpayer was more than the issue was worth; Labour members somehow seemed to think it meant the taxpayer got less. The real question is: can the government afford to allow political whims unstated in privatisation prospectuses to scare the City away from underwriting issues so well in future?

Decide your priorities, and announce them

Sliding along on this banana skin, Mrs Thatcher's government needs to find a calmer balance between its four main aims in privatising nationalised assets. These are (a) increasing competition; (b) rolling back what it sees as the inefficient frontiers of the state; (c) broadening asset and share ownership in Britain; and (d) getting the best price for the household silver. It then needs spell out as plainly as possible in the prospectus for each deal who will and will not be allowed to buy the shares on offer and up to what proportion of the total equity.

The order of priority need not be the same in each deal. The sale of Jaguar will do little to increase competition but it can increase the number of Britons who hold shares if it is imaginatively marketed. In the British Airways offering the need to increase competition in the air ought to take precedence over getting the best share price (ie, strive to extend the Anglo-Dutch freer fares deal to other places). Over British Telecom the competitive pass has already been sold because, as a regulated utility, the company is a semi-monopoly. The government can use the BT issue best—through loyalty bonuses, subscriber discounts and so on—to broaden share ownership. But it will make such a huge and desirable offering as British Telecom's unmarketable if, in the process, it biases the market too far against institutional investors.



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Preliminary Results

£m	1984	1983
Turnover	650	403
Profit before taxation	190	157
Profit after taxation	113	98
Earnings per share	25.1p	24.1p
Dividend per share	6.5p	5.5p

Notes:

- In February 1984 the Group increased its shareholding in the Hong Kong Telephone Company Limited (Telco) from some 35% to some 79%. In order to facilitate comparison with subsequent and previous years' results the total results of Telco have been included from the date of acquisition of the Group's original shareholding to 31 March, 1984. A deduction in respect of that profit attributable to the Group's increased holding prior to its acquisition (pre-acquisition profit) has been shown separately. The results for Telco for the year to 31 March, 1984 have been included in the consolidated profit and loss account as follows:

	£m
Turnover	182
Total trading profit	42
Pre-acquisition profit	(15)
Trading profit	27
Profit after taxation	20
Minority shareholders	7

- The excess of the price paid for shares in the Hong Kong Telephone Company Limited over the share of the net assets acquired of £101m (1983 - £74m) has been charged against reserves.
- A capitalisation issue of 75 million Ordinary Shares of 50 pence were allotted to shareholders registered at 1 September, 1983 on the basis of one new Ordinary Share for every two held.
- The Group had already provided fully for deferred tax on its leasing business and therefore the total impact of the budget changes in capital allowances and rates of corporation tax is minimal.

Final Dividend

The Court recommends a final dividend of 4.1 pence per Ordinary Share (1983 - 3.4 pence) payable on 1 October, 1984 to shareholders on the register at 1 September, 1984. This makes a total dividend for the year of 6.5 pence, an increase of 18% over the 1983 dividend of 5.5 pence. The cost of the 1984 dividend is £29,250,000 (1983 - £23,640,000).

on Mercury Communications Limited which is steadily extending its network both by microwave radio and fibre optic cable. Its first international service is scheduled to start operations in August via satellite earth stations installed in London's docklands.

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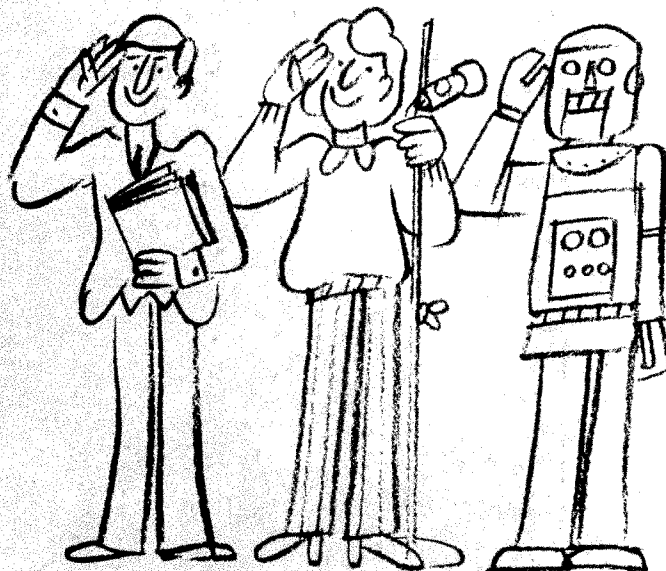
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INTERNATIONAL



Figueiredo takes a small sponge to a sea of troubles

The south sea bubble that may be reaching bursting-point

FROM OUR SPECIAL CORRESPONDENT IN BRAZIL

Some \$95 billion-worth of red ink makes Brazil the world's biggest debtor and the pivot of the Latin American debt balance. At the meeting of the 11 Latin American debtor countries on June 23rd, the Brazilians joined the Mexicans in submitting a restrained but detailed plan for a reduction in the region's debt burden. The trouble is that Brazil may not be in an accommodating mood for much longer, about its debt or anything else.

A contest over the presidency, which spilled out into the streets again last week, has pushed politicians of all shades towards a radical line on debt renegotiation. Moderate men in both the government and the opposition now fear that, unless Brazil is granted some relief by its creditors, a populist leader may be swept to power on a tear-up-the-debt platform.

After 20 years of army rule, Brazil's political scene is in would-be-democratic disarray. President Figueiredo's attempt

to turn over power to a handpicked successor, endorsed by the two houses of congress, seems likely to be frustrated. Last April a constitutional amendment to bring in direct presidential elections failed to win the necessary two-thirds majority, largely because dissidents from the government party were arm-twisted to abstain. Since then opposition to the president's plan has been mounting. Large crowds demonstrated in Rio de Janeiro and Sao Paulo last week, demanding *diretas ja*. President Figueiredo withdrew an amendment postponing a direct election until 1988 when he realised that it faced certain defeat in congress.

This week the government's preferred candidate, the vice-president Mr Aureliano Chaves, withdrew from the race. This put paid to the hopes of some members of the governing party that Mr Chaves would prove acceptable to the opposition and thus head off pressures for

direct elections.

The possibility that the direct electionists may yet prevail has thrown both major parties into confusion. The Social Democratic party, which for many years served as the civilian front for army rule, fears a crushing defeat in a popular vote. With reason: in a recent local election in Santos, the port of Sao Paulo, the Social Democrats polled only 3% of the vote compared with 63% for the main opposition party, the Brazilian Democratic Movement and 21% for the small trade-union-based Workers' party.

The Social Democrats' president, Mr José Sarney, recently tried to take the heat out of the direct elections argument by proposing that both parties select their candidates through primaries among their party workers before the congress sits as an electoral college. A primary would spell almost certain defeat for Mr Paulo Maluf, the Social Democratic contender most disliked by the opposition. When Mr Maluf's supporters on the party executive voted down the primary plan, the party president resigned. Party managers are now attempting to resurrect it.

Mr Maluf is a wheeler-dealing former governor of Sao Paulo state. He takes the line that Brazil's foreign debt is "no problem". This view is not widely shared. The army dislikes Mr Maluf and the president has been trying to block his nomination. A recent opinion poll showed that 61% of Brazilians disapprove of him compared with 15% who admire him. This is prompting second thoughts among his party colleagues.

Contending opposition factions seem to be uniting behind Mr Tancredo Neves, the veteran governor of Minas Gerais, whose resistance to the military government throughout the past two decades has won him respect. The army's *bête noire*, Mr Leonel Brizola, the governor of Rio de Janeiro, seems unlikely to stand. He hints that he will back a leading left-wing economist, Mr Fernando Henrique Cardoso. If a direct election takes place, the threat that a radical could win a popular majority may persuade the moderate opposition to accept an electoral college vote, provided its own man seems sure to win.

President Figueiredo has so far refused to endorse any candidate. This is being interpreted as a sign that he wants to stay in office himself. His excuse for extending his term would be the political deadlock

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and the need for national unity against Brazil's foreign creditors.

For months Brazil's newspapers have been groaning about the debt burden. The finance minister, Mr Ernane Galveas, recently stated baldly:

We are not going to pay any debt. Both the banks and the multinationals know this; we will pay the interest and when we lack the money the bankers will lend us more to pay the interest.

The foreign minister, Mr Saralva Guerreiro, argues that western governments must accept responsibility for the actions of their banks.

The most widely circulated version of Brazil's initial negotiating position on the debt proposes a five-year moratorium on payments of principal, a repayment period of 15-20 years beyond that, and interest rates fixed at the level of world inflation plus 3%—or around 8% today. Mr Guerreiro, with his more robust approach to the debt, seems to have stolen the march on Brazil's tireless planning minister, Mr Delfim Netto, who may soon be fired.

The government's line, which has been articulated by Mr Chaves, seems to be to ask for more concessions from the bankers: a moratorium for 10-18 years plus a 3-4% fixed real interest rate for Brazil. Mr Chaves had given warning that there is a danger of an "impasse" in the dialogue between creditors and debtors. The bankers, he said,

must accept negotiation or confrontation. In a confrontation the bankers have more to lose . . . We have to find a way out because all the time the debt grows and now threatens Brazil with internal upheaval.

Should the opposition force its way to power, as seems increasingly likely, it says it will be much tougher. As expounded by the Democratic Movement's leader, Mr Guimaraes, its platform calls for the denunciation of agreements with the International Monetary Fund; a moratorium on payments both of interest and of debt for five years; the stretching out of repayments on the debt for 25 years beyond that; and further restrictions on imports in an economy which is among the most protectionist in the world. "The external debt is the origin of all our problems", declares Mr Guimaraes with crowd-pleasing simplicity.

The debt is still growing, even though this year's target of a \$9.1 billion trade surplus is likely to be exceeded. The visible trade surplus in June was a thumping \$1.2 billion, making a total of \$6.03 billion for the first six months. Even so, last year Brazil had to find \$13 billion for debt servicing: it borrowed \$7 billion to make up the difference between its trade surplus and its debt servicing obligations. This year Brazil has borrowed \$5 billion



May Delfim rest in peace

more—though that may prove more than it needs, given the growing trade surplus.

Mr Maluf ("the debt is no problem") says that as long as the debt increases by less than the rate of world inflation there is nothing to worry about. (Brazil's own inflation hit 235% over the past 12 months.) Brazilians, suffering an ever tighter squeeze while the debt mounts, may not see it that way.

Many Brazilians consider an Argentine default virtually inevitable. Brazil's choice, in the view of some officials, is whether to join Argentina in defaulting or to wait and see whether it gets away with a default. Some highly placed Brazilians argue that a debtors' cartel would have more muscle and thus extract better terms from the banks. Others believe that, if Argentina defaults, the banks will give better terms to Brazil in order to prevent it from doing the same.

Mr Celso Furtado, one of Brazil's leading economists, has long argued that sanctions could not be effectively applied against Brazil in the event of a default. As he sees it, if foreign banks tried to seize Brazilian assets abroad, the government would seize the large foreign assets in Brazil. If a trade embargo were imposed, the country could find new markets or funnel its exports, at a price, through third countries.

Economists like Mr Furtado are not too worried by the thought that foreign bankers might stop lending to Brazil for years ahead, perhaps even denying it trade credits. They believe that others would fill the gap left by Brazil's big creditors and argue that, for the foreseeable future, Brazil will anyway not get any new money for investment.

The Brazilian government and much of the moderate opposition would still probably prefer a deal on their terms to a confrontation with the banks. Yet, if bankers and governments are grudging about Brazil's debt, this might improve the electoral chances of the postpone-the-debt Mr Neves or even of a plague-on-all-foreigners man like Mr Cardoso. The Brazilian government will be stressing this point in its talks with the bankers.

Viewing the comfortable middle-class prosperity, the soaring skyscrapers and the thronged beaches of Rio de Janeiro, Sao Paulo, Bahia and Recife, one easily takes comfort in Mr Maluf's crack that "in Brazil, as on a French wedding night, there is never any blood". That has been the tradition, up to now. Yet violence cannot be ruled out in a mushrooming society of 125m people which has seen its living standards cut back to those of six years ago. In the first five months of this year, crime in Rio de Janeiro was 40% higher than a year ago.

Brazil's finance minister, Mr Galveas, recently claimed that the sheikhs who raised oil prices and the bankers who raised interest rates have been responsible for no less than \$64 billion of Brazil's foreign debt. Special pleading, perhaps. But if people do take to the streets in Brazil, the political ground may move too fast for the bankers to keep their balance.

India

Got him

Mrs Gandhi never rests. A ruler less preoccupied with pressing every political advantage might have allowed herself to concentrate for a month or two on mopping up Sikh terrorism in Punjab. She might at least have waited until daylight to rid herself of another troublesome focus of opposition. But the prime minister of India and leader of its Congress party is one for seizing the moment, even if it comes at 3am. It was at that hour on July 2nd that the governor of Kashmir summoned a prospective new government for the state. At 7.30am Dr Farooq Abdullah was told that his term as chief minister was over. The swearing in of the new cabinet took place a few hours later.

The Congress party in Kashmir is the major shareholder in the new state gov-

ernment. Its 26 legislators are pledging to prop up the one independent and 12 defectors from Dr Abdullah's party whose floor-crossing brought about the fall of the Abdullah government. But the deal was evidently too shaky to be tested in the proper way by a vote on the floor of the legislature. Hence the pre-dawn dash to the governor's residence. All the defectors were immediately rewarded with ministerial jobs.

As a second form of insurance, paramilitary forces were flown into the state and a curfew imposed. Angry crowds defied the curfew to march with black armbands, and were dispersed by the police. Srinagar, the state capital, was shut down for most of the week in a protest strike. Dr Abdullah has called for a civil disobedience campaign to compel the governor to call a state election. But the governor, who was handpicked by Mrs Gandhi in March to carry out this coup, is unlikely to oblige.

The new chief minister, Mr G. M. Shah, is the brother-in-law of Farooq Abdullah and a long-time political henchman of his father, the late Sheikh Abdullah, the so-called Lion of Kashmir. Mr Shah has been scheming to get rid of Farooq, who is 15 years his junior, ever since the young doctor gave up his medical practice in Britain to start an apprenticeship as his father's political heir. The Abdullah family is now split down the middle, with the sheikh's widow supporting Farooq, and a younger son, Tariq, aligned with G. M. Shah and his wife Khalida.

The political battle inside Kashmir and inside the Abdullah clan is about power and nothing else. A few months ago the Shah camp was reported to be offering up to \$50,000 a head to induce members of Dr Abdullah's National Conference party to join him. Mr Shah himself is a member of the upper house, which is indirectly elected by the lower one. He is now claiming the National Conference party as his own, to get around the state ban on defection.

Power is also the issue for Mrs Gandhi and the Congress party in Kashmir. Mrs Gandhi has been working to oust Dr Abdullah since he won an election in June last year after refusing an offer of an election pact with her. Last autumn the Congress party accused Dr Abdullah of providing training camps in Kashmir for Sikh militants and consorting across the border with Pakistan. No evidence was ever provided. When all this and a spot of street violence failed to dislodge the popular chief minister, and the then governor, Mr B. K. Nehru, refused to dismiss him, Mrs Gandhi replaced the governor and resorted to vote-buying. This week the price was right.

Philippines

Reassertion

FROM OUR MANILA CORRESPONDENT

Plainclothes killer squads called "secret marshals" were sent into Manila's streets in June in pursuit of highwaymen who had been robbing bus passengers. They have since shot dead several dozen people who the marshals claim were criminals but others say were unoffending bystanders. Mr Agapito Aquino, who led a movement for a boycott of the Philippine election in May, claims that the killings are "designed to create an atmosphere in which acts of repression will be accepted by a terrorised public". Manila's leading columnist, Mr Jesus Bigorinia, has accused the government of doing more than the highwaymen to create a climate of terror.

To such people, the revival of the secret marshals is part of President Marcos's effort to regain firm control over his country after the unexpected reverses for his party at the polls. Two years ago he was compelled to disband a similar force after three months of killing, as a result of pressure from his nervous American allies. His post-election strategy includes a decision to play up the threat from the Philippines' communist guerrillas, now officially estimated to number not quite 7,000. In 1972 Mr Marcos cited the communist threat as his reason for imposing martial law.

If Mr Marcos is feeling unsettled, the likeliest reason is the prospect of the opposition occupying a third of the elective seats in the new national assembly which will meet for the first time on July 23rd. The opposition claims it would have won an absolute majority if the election

had been clean. But the government-controlled election commission, which has been wading through a long list of contested results, has ruled in favour of the ruling party in almost every case. In its most controversial decision, the commission upheld the election of the minister of political affairs, Mr Leonardo Perez, who had earlier been reported to be winning less than half as many votes as his rival. His defeated opponent, who claims he was the victim of massive fraud, is now hiding in Manila and trying to elude arrest on embezzlement charges brought against him by Mr Perez.

Despite his promise of a major cabinet reshuffle after the election, the president has added only four new faces. Only one, Mr Arturo Tolentino, who replaces the ailing 83-year-old Carlos Romulo as foreign minister, is a man of national stature. Mrs Imelda Marcos, who was widely blamed for the defeat of her husband's party in greater Manila, where she was the party's campaign manager as well as governor, has been reappointed as minister of human settlements.

Mrs Marcos made a highly publicised visit this week to the commission investigating the murder last August of her husband's leading rival, Benigno Aquino. The investigators heard her deny that she had warned Mr Aquino that he might be shot by friends of the Marcoses if he insisted on returning from his American exile. After her testimony, an opposition leader, Mr Salvador Laurel, played to journalists in Tokyo a tape-recording in which Mr Aquino told him about Mrs Marcos's warning.

A week earlier, two lawyers had walked out of the commission hearing when they were denied permission to examine the only witness who claims to have seen the actual moment of the assassination. With the credibility of the commission increasingly in doubt, the commissioners this week serenaded the president's wife on her 55th birthday.

Japan

Censored

FROM OUR TOKYO CORRESPONDENT

The censors who vet Japan's school textbooks are under fire again. In 1982 China and South Korea protested that the censors were sanitising Japanese history, for example by calling the invasion of Manchuria in 1931 an "advance". Japan then promised to alter the offending words. This week the 1985 textbooks were published, with the promised changes. But the Chinese are still not satisfied and North Korea has joined the protest.

Japan is one of the few developed



Imelda unshuffled

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countries that retain central control over what schools teach. Textbooks are written by university professors, and then have to be submitted to the education ministry, which recommends changes. Only books which pass ministerial muster can be bought by state schools.

The censors are thorough. They produced more than 400 pages of suggested alterations for a 400-page book on world history. One of the four authors, Professor Shinji Kojima of Tokyo University, wrote that more than 200,000 Chinese were killed by Japanese soldiers in Nanjing in 1937. The inspectors refused to accept the military tribunal which sat after the war as a reliable source, and so 200,000 became "many". A photograph of Japanese atrocities in Shanghai was deleted.

Although Japan's own history from 1930 to 1945 is the most sensitive area, vetting is tight on other subjects too. In the same book, Professor Hiroshi Bando of Meiji University attributed the killing at Sabra and Chatila camps in Beirut in 1982 to right-wing Lebanese militiamen and linked the massacre to Israel's invasion of Lebanon. The inspector insisted that this connection be removed.

A historian and textbook writer, Mr Saburo Ienaga of Chuo University, has waged a long legal battle against textbook censorship. In January he filed a third lawsuit for damages against the education ministry for "mental pain" inflicted by the revisions, on the ground that the ministry's censorship is unconstitutional. His two previous suits are now being heard in the Tokyo high court. The professor argues that Japan's constitution bans censorship of all kinds. The ministry's screening procedure is not laid down in any law, but is simply carried out according to ministerial ordinances. Why, if this is unconstitutional, can it be done?

Textbook censorship has been practised in Japan ever since the opening to the west in the 1870s. It was stepped up by the American occupiers in 1945 to eliminate ultra-nationalist propaganda. The censors' powers form part of a highly centralised education system, in which the curriculum, too, adheres to a national guideline and is geared towards a uniform university entrance examination.

Governments and teachers have agonised for years about whether too much uniformity, cramming and rote-learning is deadening creativity. The prime minister, Mr Yasuhiro Nakasone, wants to change the education system because its roots lie in the American model. Though his plans are vague, he wants education to point more towards patriotism and a sense of Japanese national identity. This will mean still more centralisation and still more censorship.

Syria

Have a holiday

FROM OUR LEVANT CORRESPONDENT

The divide-and-rule game had become too dangerous for Syria's President Assad. So he has consolidated three competing centres of military power in his country, brought their commands under his



This Assad isn't going

direct control, and sent their leaders to cool their heels abroad. The most notable of the exiles is his own brother Rifaat.

Last February 27th General Rifaat Assad tried to succeed the ailing president

Like father

FROM OUR SINGAPORE CORRESPONDENT

A son of Singapore's prime minister, Mr Lee Kuan Yew, has become a brigadier-general and the second most senior figure in the city-state's armed forces. At 32, Lee Hsien Loong is the youngest officer ever to attain this rank. A political career could be his next step. He is expected to become a candidate for the ruling People's Action party in the next election, which could take place in September. Since the ruling party always wins almost every seat, his election would be assured. He would then have to resign from the army.

Brigadier-General Lee has been groomed to play a more public role than the usual soldier. His recent speeches have been extensively reported in the local press. In January last year, he directed a dramatic helicopter rescue operation which saved 13 people caught in cable cars dangling above the Straits of Singapore.

Like his father, mother and brother, Lee Hsien Loong is an academic superstar and got a double first at Cambridge University. His next double first could be on its way.

by moving his 25,000-strong Defence Brigades, drawn mainly from the Assad's own Alawite minority, into the centre of Damascus. They were confronted there by paratroops and commandos of the Special Forces led by another Alawite, General Ali Haidar, and by the army's Third Division, commanded by a third Alawite, General Chafiq Fayyad.

The three forces faced each other in the heart of the capital for three months before Rifaat was forced to retreat. First he was fobbed off with the post of second vice-president; later he was deprived of his command of the Defence Brigades, though he managed to pass it on to his son-in-law. Then, on May 28th, President Assad despatched the three warring generals, chaperoned by the foreign minister, to Moscow, where they chatted to Mr Chernenko. Only the foreign minister was allowed to return to Damascus. General Rifaat may even have been deprived of his vice-presidency. He is now commuting between Paris and Geneva, awaiting a call to return. But he will find his power-base dissolved. The Defence Brigades and the Special Forces are being integrated into the regular army.

By stripping the regime of its praetorian guard in the shape of the Defence Brigades, the Alawites could be vulnerable to a bloody uprising by the Sunni Moslem majority of the Syrian population. The Assad clique thought that its repression of the Moslem Brotherhood in 1982 crippled the opposition. It could be wrong.

Lebanon

Under lock and key

FROM OUR LEVANT CORRESPONDENT

Peace, with jitters on all sides, may be starting to break out in Beirut. Can it hold? Will it spread? The next few days could be decisive for Lebanon. Last week the Christian ministers in Mr Rashid Karami's two-month-old government of national unity allowed the Christian head of the army to be sacked and the powers of the newly appointed army chief, who is also a Christian, to be fettered by a Moslem-Christian-Druze committee. Now the nail-biting process has moved another stage forward.

The new military set-up has succeeded in getting the sectarian militias on both sides of the "green line" dividing Beirut to hand most of their heavy weapons into depots or to truck them outside Beirut. The hoped-for consequence is that the random bombardment of residential areas will now end. The arms depots, once locked, are to be overseen by whichever militia owns the arms, by Lebanese sol-

Arabian nights in front of the telly

FROM A SPECIAL CORRESPONDENT IN EGYPT

Just about any able-bodied Egyptian who can raise \$100 for a passport can now go to the Gulf, do menial work for six months and come back with \$1,000-\$1,500. This is a fortune for 1.3m landless families, and even for the 1.7m small landowners who eke out a living on farms averaging 1.6 acres. Fortunes like these, remitted by fellaheen working in the Gulf, have made a great change in Egypt's 4,000 villages. Tractors and power pumps are doing the work of draft animals; pharaonic threshing sledges are disappearing; and brick houses, with electricity and the inevitable television, are replacing mud huts.

The first Egyptians to work abroad were skilled and educated Cairenes. The unskilled and often illiterate fellaheen got their chance only a few years ago when Iraq, Jordan and North Yemen waived the need for entry visas. Now battalions of Egyptian peasants pass in and out of Cairo airport every day and Iraq's farms and factories swarm with Egyptians. Some 3m-4m Egyptians are working outside the country, about 500,000 in Europe and the rest in Arab states. They send back about \$3 billion a year in official deposits and perhaps another \$1 billion in prepaid imports; nobody knows how much is smuggled in.

In one Nile village visited by this correspondent almost every peasant had worked in the Gulf and had his tale of wonder or horror. The money was more than they had ever seen but the food was awful (stale bread and tinned meat), the natives bad Moslems, the women loose, the cities noisy. And woe to the poor foreigner who is struck by a car driven by a rich Saudi or Iraqi.

Labour shortages are now so acute in the Nile villages that daily wages for field-hands have tripled to \$5 or more. A lump landlord, sweating in a soiled unic, complained that he had been forced to tend his own cattle for the first

time in years. His former labourer recently bought an acre of land after four years of working on a chicken farm in Saudi Arabia. Savings from the Gulf go first into land, next to a house, then to farm machinery or livestock, and after that to a television set or some other luxury.

The big attractions on television are soccer matches, local soap operas, and dramatisations of Islamic history. Like most Moslems, Egyptian villagers seem to be torn between a desire for modern technology and a longing for the imagined purity of the Moslem past. Cultural strains are showing. One woman found it hard to reconcile the advice of a government television programme about keeping children clean with the age-old village custom of leaving them unwashed to ward off the evil eye.

When 250 peasants were asked recently what they needed, they replied: subsidised food and animal feed, local processing plants to provide employment, education for illiterate village women, and modern farming aids. Some of these needs are now being met through a pilot scheme, financed by American aid, for providing credit to the poorest peasants. At 27 of Egypt's 240 rural banks, a landless labourer or small farmer can get a loan of \$1,000 to invest in any of 100 technological "packages" such as high-yield seeds, pumps, poultry houses or do-it-yourself greenhouses.

Egyptian peasants, starting from almost nothing, have seen their incomes rise by 9% a year in real terms since the boom began in 1976. Most of this comes from remittances. The fellaheen know that their future lies less with television sets than with scientific farming and better health and education. In the Arabian Nights world that the Nile village still is, the belief persists that although a genie can give you all you desire, he can put you in his power.

diers vetted by the new military committee, and by French observers.

By July 4th, Christian, Druze and Moslem soldiers in both parts of Beirut had been shuffled about to make the national army in the capital a shade more integrated. They then peacefully displaced the assorted militias which have been scowling (and sporadically shooting) at each other and at civilians across the green line for the past five months. On July 5th the barricades were due to come down. Next day the port and airport should open.

But the worries are still legion. Although the plan appears to have the approval of the founder of the Maronite Christians' Phalange party, Mr Pierre Gemayel, the co-operation of the Phalan-

gist militia has been particularly grudging. At a whiff of trouble, the weapon-carrying trucks could be back, the locks broken, and the fighting resumed.

The Phalangist fighters will also be watching the Israeli election on July 23rd. If victory goes to the right-wing Likud, the intractables within the Phalange, who have been armed and encouraged by Israel, could try to reclaim their old dominance in the Christian area of the country. But the Christian business community, which gives the Phalange a lot of money, has been pressing the militiamen to give way because the division of Lebanon is bad for business.

Why should this plan do better than its predecessors? There is no certainty that it

will. But Mr Karami's government, with its wide support across the religious lines, is a better bet than the one before, which most Lebanese Moslems thought was beholden to the Phalangists. And most Lebanese, except for the obsessed young gunmen, are fed up with war.

Guatemala

A funny place for a real election

FROM OUR GUATEMALA CORRESPONDENT

There were more sceptics than optimists when Guatemalans voted on July 1st for 88 members of a constituent assembly—the first stage in the country's planned return to democracy. Two of the previous three elections were blatant frauds. Two weeks after the last one, in 1982, the "winner" was ousted by General Rios Montt, who was himself overthrown last



Unintimidated, they turned out

year by General Mejia Victores, the self-proclaimed guarantor of last Sunday's election. Yet even before the first returns came in, it was clear that Guatemala had held its most honest election in at least four decades.

Not all went smoothly: a quarter of the ballots were blank, defaced or incorrectly marked, and the official vote count was expected to drag on for a week. But there was a fine turnout, of up to 80% in some areas. The army showed no signs of taking sides.

The winners in the densely populated western highlands were the Christian Democrats, Guatemala's only large reformist party and a frequent victim of right-wing violence. They were followed in most rural areas by the far-right National Liberation Movement, led by a fiercely anti-communist patriarch, Mr Mario Sandoval. The losers were the country's left-wing guerrillas who did not

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take part.

The big winner in the cities was Mr Jorge Carpio Nicolle, a newspaper publisher and political novice who spent at least \$700,000 on the most professional media blitz Guatemala has ever seen. Though it had no grass-roots organisation or coherent political message, Mr Carpio's newly-formed Democratic Union of the Centre won a clear victory in Guatemala City and ran second to the Christian Democrats nationwide.

The Democratic Union's success startled local professionals but the lesson is already being absorbed. The Christian Democrats are seeking more money from their West German and Venezuelan friends for the presidential election next March, when Mr Carpio will spend more of his fortune on his own candidacy.

The assembly looks like having a centre majority. For the first three months after it is convened in August, it will work on a new constitution, and General Mejia Victores will continue to rule the country. Guatemala remains a violent place. Official and officially tolerated killings are claiming more than 100 victims a month. If the killings can be stopped, Guatemala will be on its way to democratic respectability—and to qualifying for more American aid.

Bolivia

No way out

One of the skills for which Bolivia's leaders are noted is coup-making; the country has had 190 violent power seizures in 157 years. But on June 30th a bizarre attempt to kidnap and overthrow the democratically elected president, Mr Hernan Siles Zuazo, collapsed after 10 hours. The kidnappers, led by a lieutenant in the presidential guard, gave them-

selves up after obtaining guarantees that they could leave the country. More than 100 army officers and government officials were arrested. The armed forces' chiefs, usually eager to take power on such occasions, stayed loyal. They had no desire to assume responsibility for Bolivia's mess, for which nobody has any solutions.

President Siles, a 71-year-old veteran of left-wing Bolivian politics, has for 20 months headed a shaky coalition ranging from centrists to the Communist party, which holds the key ministries of mines and labour. His attempts to impose austerity on a population with a per capita income of barely \$400 a year have failed.

Inflation is running out of control at about 600%. In April, the peso was devalued from 500 to 2,000 to the dollar; the black market rate is about 3,000 to the dollar. In June, Bolivia stated that it was three months behind in service payments to commercial banks and was technically in default: it had been due to pay \$22.5m of a debt of about \$720m. It has no agreement for credits with the International Monetary Fund.

Bolivia's agriculture, especially in the highlands, has been badly hit by a long drought. Production and transport costs of tin exports, on which Bolivia relies, are at least 20% higher than the world price. Huge quantities of coca leaf are smuggled to clandestine cocaine factories in Colombia but the profits, estimated at \$700m a year, are deposited in Miami, not La Paz.

The decision not to service commercial-bank debts was part of a deal which Mr Siles tried to make with the powerful union federation. About 5,000 unionists had held a 10-day hunger strike and workers at the central bank struck for six weeks, paralysing the country's financial system. Mr Siles promised them he would not pay Bolivia's debts in hopes that the unionists would drop demands for big

wage increases and price controls. But the deal collapsed and a general strike started on Thursday.

The Americans support Mr Siles, even though he has two Communist cabinet ministers, because of his democratic credentials. Waiting in the wings for the government to fall is Mr Hugo Banzer, a tough conservative ex-general who ruled Bolivia as president from 1971 to 1978.

Canada

If the Queen will stand aside

FROM OUR CANADA CORRESPONDENT

If Canada's new prime minister, Mr John Turner, loses the election that he is expected to call next week, he will drop into oblivion. If he wins, he will have rescued the Liberals from the brink of disaster which Mr Pierre Trudeau's unpopularity had brought them.

One of the constraints on Mr Turner in setting an election date is the visit that the Queen is due to make to Canada on July 14th, to mark the bicentenary of the arrival in New Brunswick and Ontario of the "Empire Loyalists"—refugees from the United States. If the visit has to be postponed, to clear the way for an election campaign, Mr Turner would like the Conservative and New Democratic parties to share responsibility for the decision.

As a former finance minister Mr Turner is more worried than Mr Trudeau ever seemed to be about Canada's falling dollar, rising interest rates and persistently high unemployment. He is preparing to fight the election on economic issues, which he means to handle with a businessman's crispness. Although 13 members of the former Trudeau cabinet have gone, the economic team headed by Mr Marc Lalonde, the finance minister, is practically unchanged. It still includes three ministers, Mr Lloyd Axworthy, Mr John Roberts and Mr Herb Gray, who are regarded as more interventionist than Mr Turner himself. This reinforces the belief that there will be an early election. The new prime minister is, in effect, promising continuity for the time being and changes a little later.

As before, a third of the cabinet is French-speaking. Mr Turner, an immigrant from Britain, has given the ministries of external affairs and regional development to Mr Jean Chrétien and Mr André Ouellet, the two leading Liberals from Quebec. Leaving them to secure the ruling party's stronghold in their province, Mr Turner himself will head west to try to win seats for it there.

Suddenly, the miners loved the president



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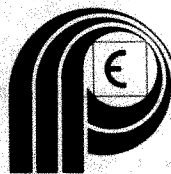
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When blacks and Jews fall out

WASHINGTON, DC

Just 20 years ago three young men were lynched in sulking Mississippi as Lyndon Johnson was signing the Civil Right Act, the legal instrument against segregation which has done so much to open up American life to blacks. Of the three, two were white. Both were Jews. They had been showing blacks how to use their new power by registering to vote. When the anniversary of this famous act was celebrated on Monday, the lynching again took on uncomfortable significance. It served to remind everybody how much America's blacks and Jews, two big elements of the old Democratic coalition, have moved apart in 20 years.

The bitterness caused by the bigoted nonsense of Mr Louis Farrakhan, the Black Muslim leader, and the agonising which the Rev. Jesse Jackson, the Democratic presidential candidate, has gone through in disavowing him, are the latest evidence of the strains between the two communities. Behind all the harsh words, the rupture is cause for sorrow in both camps. They, more than any other groups, fought America's civil-rights battles together and they have not forgotten it. Yet nobody would be happier than the anti-semitic Mr Farrakhan if the unusual publicity his tired diatribes have brought about this year were to force Mr Walter Mondale, the Democratic nominee-to-be, to make some kind of divisive choice between the support of 26m blacks and that of 5m Jews.

Their shared history of fighting discrimination has never been free of quarrels. As black ghettos developed in the northern cities half a century ago, their occupants lacking capital and education, Jews came to play a leading role as landlords, shopkeepers, teachers and social workers there. They still do, especially in New York (it used to be that the only people to disturb their communion were the police, who were Irish). Resentment felt by blacks has always been near the surface, which may account for Mr Jackson's ill-received references to New York as "Hymietown".

On another level, established longer

ago than the black ghettos, is a record of solid co-operation between the most educated Jews and blacks. When the National Association for the Advancement of Coloured People (NAACP), the grandfather of civil-rights groups, was formed in 1909, two of its half dozen founders were Jewish. And among American whites, Jews have always contributed a disproportionately high share of funds, toil and commitment to every major civil-rights organisation. Such help met the goal, dictated by their religion, of feeding the hungry and setting the captive free. Discrimination, for them, was also a subject close to home. As recently as the 1950s they were often barred by "keep out" signs, and they are still excluded from some private clubs.

The tensions causing the present rift began with the explosion of the black power movement in the mid-1960s which followed a conclusive string of civil-rights victories. An assertive generation of black firebrands, the Stokely Carmichaels, H. Rap Browns and Eldridge Cleavers—along with the more mysterious Malcolm X—came to challenge tradi-

tional civil-rights partnerships led by the more pacific Martin Luther King and others. The newcomers insisted that the decisions affecting blacks should be made by blacks, with no part for whites. They wanted to move faster. "They were young blacks in maturation", observes Mr Bayard Rustin, a sage veteran of the civil-rights war. "They did beautiful things and idiotic things."

In retrospect, many blacks today see those black nationalists much as children rebelling against their parents. But Jews felt affronted, as if they had been kicked out of the family home. For them the romance of the civil-rights cause was ended. They began to withdraw. When famous warrior organisations of the 1960s like Core and the Student Non-violent Co-ordinating Committee deliberately turned all-black, their money dried up. Jews still contribute to less militant organisations such as the NAACP, though this group too had not a single white on its governing board for the first time in its long history when it met in Kansas City this week. Martin Luther King is believed to have received three quarters of his money from whites, mainly from Jews. This year Mr Jackson has raised practically all his campaign funds in dollars and dimes from fellow blacks (Arab sources contribute fairly heavily to his black self-help organisation, Push).

A second wedge in the alliance has been "affirmative action", which is de-



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signed to get blacks and other minorities into jobs from which discrimination and lack of training have barred them. Jews object to only one part of the programme: quotas. Quotas give blacks a certain proportion of places in the police force, fire department or university—more perhaps than they would get if only conventional criteria were applied. With Jews, the word sets off a double alarm. One is of moral repugnance: not so long ago, they themselves were still restricted to a certain number of places in institutions like medical and law schools. The other, more recent, objection is that of an ethnic group that has not needed quotas to get ahead, often fast, in American society. Aversion to quotas has led one seasoned Jewish civil-rights campaigner, Mr Morris Abram, to join President Reagan's much-criticised new "colour-blind" version of the federal civil-rights commission, leaving himself open to heated charges of betrayal from blacks.

To blacks, quotas stand for a correction of past wrongs and a remedy for current ones. They want that remedy available when needed. Mr Benjamin Hooks, the head of the NAACP, puts black feelings on this quite plainly: "Affirmative action is to blacks what Israel is to Jews."

Israel is a third cause of black-Jewish tensions, one which Mr Jackson has never shrunk from raising during his presidential campaign. He is voicing black concerns about foreign policy which are also rooted in the struggle for civil rights. These concerns developed during the Vietnam war when blacks both fought and died in disproportion to whites (they accounted for some 30% of America's dead and wounded although blacks were only 11% of the population). Meanwhile, the emergence of independent black nations in Africa prompted black opinion-makers to see themselves as part of a worldwide movement which included the Palestine Arabs (the myth seems to persist among American blacks that Arabs are almost black).

Mr Andrew Young, now mayor of Atlanta, has never made any secret of his fellow feelings for the Palestinians. As ambassador to the United Nations under President Carter, he had unofficial contacts with Mr Yasser Arafat of the Palestinian Liberation Organisation. American Jews were not pleased. When Mr Young was sacked by Mr Carter after these contacts were revealed, many blacks concluded, unfairly, that Jewish pressure had got rid of him.

Mr Jackson has been vigorously upholding the need for dialogue with the Palestinians, demanding a more balanced American policy in the Middle East than the pro-Israel Mr Mondale is prepared to embrace. Israel's military co-operation

with South Africa has stirred up more trouble, since revulsion for apartheid and the need to bring it down are another strong theme of Mr Jackson's presidential campaign. Many Jews, repelled by apartheid, recognise that to define as anti-semitic any disagreement with Israel is politically absurd. Yet the range of opinion which Jews are ready to accept from fellow Americans on Israel is generally pretty narrow.

There may be some truth in the contention that Jewish Americans' increasing affluence has blunted Jewish concern for struggling blacks. Jews still seem to vote less with their wallets, however, than other American whites. It was they, for instance, who helped to tip the electoral scales that gave black candidates famous victories in recent elections for mayor in Chicago and Philadelphia. So some of the old emotional kinship remains despite the deep offence Mr Jackson has caused.

Nobody expects the strains to go away after the presidential election. For Mr Irving Kristol, a leader of the Jewish-dominated neo-conservative movement, Mr Jackson has loosed such a wave of black nationalism that there can be no going back, and the old black-Jewish alliance is therefore doomed. Jews may react by turning more conservative, he concludes, hopefully, in this month's

Commentary.

Even the sanguine Mr Rustin, who has tracked these strains for years, fears the split could deteriorate into confrontation between militants on both sides, with nasty consequences. Yet there is constant open dialogue among moderates at all levels, political and church. On both sides, spokesmen are urging a concentration of minds on the many issues which unite Jews and blacks, not on those that divide them. That could at least save Mr Mondale from catastrophic choices.

Mondale and women

Courting disaster

"I'm proud of the fact that I've opened up an area that was never opened up before", said Mr Walter Mondale on July 2nd. He spoke from the large hole into which he has dug himself, the getting out of which may prove a lot harder than the getting in. Some time ago, when Mr Mondale was one out of seven Democratic candidates, he said he would consider choosing a woman as his running-mate. It costs nothing to ponder, after all. But on the last weekend in June, in sweaty Miami, in front of a crowd of a thousand women baying at him to run with one of

Coming up for air

Mrs Anne Burford made a mess of cleaning up America's toxic waste. Yet—or so?—the disgraced former head of the environmental protection agency (EPA) has been appointed by Mr Reagan to take on the seemingly broader task of protecting the seas and the air. Mr Reagan is known for his loyalty to colleagues. This may be going a bit far, all the same.

The president's selection of Mrs Burford on Monday as chairman of the federal advisory commission on oceans and atmosphere was perhaps his oddest appointment to date. It brought forth puffs of polluting black smoke from environmentalist leaders, especially since it was announced on the eve of a conciliatory lunch they were meant to be having with the president at the White House. Mr Reagan had intended to please them by honouring the interior department's long efforts to protect ducks.

The environmentalists let fly at the president. His action was, said Mr Jay Hair, head of the National Wildlife Federation, America's biggest environmental group, "casual and arrogant". Mrs Burford was forced to resign from the EPA last year in a row over the agency's evident mismanagement. Charges that



Burford rules the waves

she intentionally sought to avoid enforcement of environmental laws are still coming from Democrats in congress. Mr Reagan told reporters he was very pleased to have her back in the administration.

WASHINGTON, DC



And we all know what will happen if he doesn't, don't we?

their own, Mr Mondale's considerations came home to roost.

He is expected by many, as duty-bound, to choose a woman now. Indeed, if he does not, say officials of the National Organisation for Women (Now), the group to which Mr Mondale was speaking, there will be a big fight at the San Francisco convention. A woman vice-presidential candidate will probably be nominated from the floor and, according to polls conducted by both Now and the Washington Post, will get the support of most of the delegates.

Poor Mr Mondale. No wonder that, standing on the Now rostrum and posing for chummy photographs with the grimly determined Mrs Judy Goldsmith, the organisation's president, he looked so unwell. He clearly thinks, and still implies, that he has done his bit for women merely by inviting three of them to come for vice-presidential interviews at his home in Minnesota. And, to some degree, he is right; not even that has been done before. The problem is that by wandering round his garden with Mrs Dianne Feinstein, the mayor of San Francisco, or with Mrs Martha Layne Collins, the governor of Kentucky, or with Mrs Geraldine Ferraro, the candidate-designate of Now and several other groups, Mr Mondale is raising expectations that he may not be able to afford to disappoint.

Nor is that the end of his troubles. If he now picks a woman, it will no longer seem to be an inspired choice of his own, something to put the image of the "dull Norwegian" to rest for good; it will look as if he has bowed to yet another pressure group. As indeed it also will if he should pick one of the two blacks he has inter-

viewed (Mr Wilson Goode, the mayor of Philadelphia, and Mr Tom Bradley, the mayor of Los Angeles) or the single hispanic, Mayor Henry Cisneros of San Antonio. These three, together with the solitary white male migrant, Senator Lloyd Bentsen of Texas, said that they were flattered simply to be interviewed. The women were equally unassuming. Their supporters are not.

Whatever it comes to at the convention (floor fights among the Democrats are traditional, although not since 1956 has a nominee agreed to accept the vice-presidential choice of the delegates), it is not doing feminists much good to try to insist before the event that a woman should be chosen. Mr Gary Hart, who, as men go, has fairly sound feminist credentials, has told Now that it has no business dictating tactics to the Democratic party. The organisation—with 250,000 members, a budget of \$10m and, as it sees it, a mission to gather in all possible votes against the chauvinistic Mr Reagan—might seem to have gone overboard. Not, however, in its own eyes. Its members say they would not have the stomach to work for a ticket with two men on it. They earnestly believe that only with a woman in tow (so to speak) can Mr Mondale defeat Mr Reagan in November.

Why, then, does Mr Mondale hesitate? Perhaps because the latest New York Times poll of rank-and-file Democrats, those who will not be at San Francisco in fancy hats, shows that only 10% of them positively want to see a woman on the ticket. That is rather fewer than those, 12%, who would like a black as running-mate. Yet another poll, organised by NBC News, shows that more uncommi-

ted voters would resist voting Democratic if a woman were chosen (16%) than would be persuaded to (11%). And when the talk turns to the most effective choice of running-mate, alongside Mrs Ferraro and Mrs Feinstein a certain Mr Hart keeps cropping up. That gentleman doesn't say yea and he doesn't say nay, neither.

Cuba

More power to the president

When the Rev. Jesse Jackson paid his visit to Cuba late last month, he and his entourage went as guests of the Cuban government. "Not a dime" of American money was spent, according to the American treasury department, which gave Mr Jackson his licence to travel on this understanding. Even a few cents for a soft drink would have put Mr Jackson in contravention of treasury regulations that forbid Americans (with the exception of journalists, government officials and emigré Cubans who want to see their families) to spend American money in Cuba. Anybody who breaks the rule can be sent to prison for up to 10 years and fined up to \$50,000.

These are penalties that hardly seem to fit the crime, especially when it is remembered that they do not apply to travel to the Soviet Union and other communist countries. Cuba's crime, according to the secretary of state, Mr George Shultz, is that it supports armed insurgencies in other countries, behaviour that "is just not in accord with what we think is the right behaviour for a country". Mr Shultz said this with a completely straight face. An even sillier reason is that dollars spent in Cuba could end up in Soviet pockets.

Trade with Cuba has long been forbidden (oh, those cigars), but the ban on travel, first imposed in 1963, was lifted by President Carter in 1977 and only reimposed by the Reagan administration in 1982. Almost at once it was challenged by a group of people from Massachusetts. Last year a federal appeals court in Boston decided unanimously that Mr Reagan lacked the power to revive the ban without going through certain procedures, such as proclaiming a national emergency and consulting congress. But the Supreme Court issued a stay of this ruling until it could consider the matter itself.

On June 29th it decided, by five votes to four, to reverse the lower court and revive the ban on travel to Cuba. Justice William Rehnquist, who wrote the decision, claimed that the currency regulations were similar to passport restrictions

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that the court had upheld in 1965 and that both "are justified by weighty concerns of foreign policy".

The legal issue on which the case was brought was narrow: whether the power to control foreign travel could be revived under a grandfather clause in legislation adopted in 1977. Unfortunately, therefore, neither court considered the constitutional question of freedom to travel, which has been upheld, though not in every circumstance, by the courts in the past, including the Supreme Court itself. The point was simply whether the grandfather clause applied to an authority which had not been exercised for several months before the act was passed.

Justice Harry Blackmun, who wrote the dissenting opinion, flatly rejected this idea, saying that it was clear from the legislative history of the bill that congress in passing it "intended to curtail the discretionary authority that the president had accumulated because of past 'emergencies' that no longer fitted congress's conception of the term". (Some regulations that were in force in 1977 were still justified by the "emergency" of a war that had ended in 1945.) According to the dissenters, the 1977 act gave the president no authority to impose new restrictions, except through the procedures laid down in the bill.

But the majority ruled otherwise. The effect is to give the president even greater freedom to ignore congress in the field of foreign policy. An article by Mr Anthony Lewis in the New York Times, entitled "Royal Prerogative", draws a devastating comparison between the court's decision and the refusal of the Supreme Court at the time of a real emergency, the Korean war, to allow President Harry Truman to seize the steel mills in order to prevent a strike that would have damaged war production.

Farming

Boating, or wheat mountaineering

"It never rains but it pours" is surely an adage coined by a farmer in Iowa. Or, if not, by a farmer in Nebraska, or Kansas, or South Dakota. In all these states, last summer, growers were desperate for rain. This year, they have it in abundance. Rain in April and May delayed corn (maize) plantings for three weeks; and barely had the farmers pulled their boots on and got out into the mud when down it came again, flooding a million acres of farmland in six states along the banks of the Missouri. State officials think as much as \$1 billion-worth of corn and soyabeans

The fighting ambassador

PARIS

Mr Evan Galbraith, the American ambassador to France, could not be mistaken for a head-waiter: no unctuous, mealy-mouthed diplomat he. Early this year Mr Galbraith's remarks about the French Communists—partners in the French government—caused something of a storm in Paris. In April he sent a cable to the state department complaining of the 13,086 American officials—more of them from the administration than from congress—to whom his embassy had had to play host last year. This week the ambassador, a former banker, turned his sights towards home again, attacking the Federal Reserve Board's tight money and calling for lower short-term interest rates.

Mr Galbraith said he was criticising neither the Fed nor any of its members (least of all its chairman, Mr Paul Volcker), though in fact he was doing both. His remarks, made at a hastily-called press conference, surprised and pleased the French government. Nobody in Paris could recall an occasion when an American ambassador had done any-

thing like it. The Mitterrand administration, which has long been critical of American interest rates, could only welcome Mr Galbraith's conversion, though French officials are less inclined than he is to dismiss the budget deficit as a "non-event" which will be seen as such next year in the warm glow of economic recovery.

The White House was quick to say that it knew nothing about Mr Galbraith's remarks beforehand. Yet, as a former banker with Morgan Guaranty Trust, Bankers Trust and Dillon Read, the ambassador was an ideal candidate to broadcast the message to Europe that the Fed's policy might not automatically be the administration's policy.

The French newspaper *Le Monde* cynically speculated that the statement by the "fighting ambassador", as it calls him, might also be aimed at helping President Reagan's re-election campaign. In which case, if his boss wins in November, Mr Galbraith might find himself moving from Paris to a more important post at home.

may have been lost. The soyabeans can be replanted, if it is done quickly; the corn cannot. About 8% of the corn crop has gone in Iowa, and those plants that survived the drenching may not last once the weather turns hot.

Is this a disaster? The federal government thinks so, in places. The markets are not so sure. For certain, this year's corn and soyabean crops need to be considerably larger than last year's to bring stocks up to a comfortable level. In 1983, the drought in the midwest and the administration's payment-in-kind policy—which rewarded farmers with grain from government stocks in return for idling a certain amount of their acreage—combined to cut the corn harvest in half. As a result, the corn in storage this June was 57% below its level in June last year. Stocks of soyabeans, too, were down to about half their level of a year ago. From time to time since the spring rains fell, the markets in Chicago have given a nervous twitch or two at the thought that, should something untoward happen to the harvest, supply might not be able to meet demand.

The administration, too, was a bit taken aback by the slump in last year's harvests. Accordingly, there was no payment-in-kind (Pik) programme for corn this year (and none either for rice, cotton or sorghum). The acreage planted in corn has now gone up by a third, to 79.9m acres: a little less than the markets had hoped for, but enough to let corn prices

settle at a low level in July, despite the floods.

Not that a Pik programme would necessarily have cut production: the winter wheat harvest is proof of that. Under Pik last year the winter wheat harvest, which starts about now, was the fourth-largest in America's history: 2.4 billion bushels, of which 1.39 billion are still in storage. Only about a quarter of the winter wheat grown is for home consumption. The rest is for export and if, as now, the markets are unfavourable—with a high dollar and good harvests elsewhere in the world—the crop must moulder in the bins.

In the hope that another helping of Pik might eat into the surplus, the programme for wheat was kept this year, with certain adjustments to make it less generous. (These were subsequently changed to include payment in cash, rather than kind, when not enough farmers were found to be signing up for it.) The result? Sad to relate, as the first crop estimates come in from farmers and from the volunteers who tramp through the fields to count the kernels in the ear, this harvest is going to be another bin-buster. It will probably be close to, if not quite as good as, last year's.

Wheat farmers do not need a crop like this. They have had two years of prices so low as to be unprofitable. Who wants a third? The export market will not take the extra bushels off their hands; American wheat exports are expected to fall by another 10% this year, despite all Mr

Reagan's attempts to force wheat on the rather hungry Chinese. In an otherwise prospering economy, farming in general—and grain farming in particular—is a black patch. The corn and soybean farmers too can now complain that even with a decent-sized flood in the growing season, their prices have got no better.

The farmers, it seems, do not blame the president. He hopes they will not; the cash-for-land-idling programme has now been extended into next year and to cover corn, cotton and rice farmers as well as wheat growers. The first cheques, for half the anticipated cash payment, will arrive slightly in advance of the election.

Pornography

Feminists join moralists

The campaign against pornography has produced some stranger-than-usual political bedfellows. In Minneapolis the city council is being lobbied jointly and hard by the feminist movement and right-wing religious and political groups to pass a controversial ordinance declaring pornography to be a violation of women's civil rights. A "civil rights" ordinance has already been passed once by the council but was vetoed by the mayor last December. In Indianapolis last month a similar crusade, which joined the forces of Women Against Pornography and the Moral Majority, persuaded the mayor there, Mr William Hudnut, to sign on the dotted line. That ordinance has been suspended while a judge decides later this month

whether it offends Americans' constitutional right to free speech and freedom of the press.

The opposition is an equally uncomfortable assortment. Civil-liberties groups and much of the national press oppose what they see as creeping censorship. Alongside them are the pornography pedlars themselves, defending a business that is thought to be worth \$8 billion a year.

The industry's success in moving from back street to main street has made it a much bigger target. The direct sale of pornographic material through the post is reckoned to account for up to \$3 billion; the rest of the money rolls in from films, from the 20,000 "adult" bookstores dotted across the country, from the sale of pornographic video cassettes and from an expanding business in cable television. A recent audit of the Pentagon's telephone bill showed that last year the American government unwittingly paid out \$300,000 for dial-a-porn calls made by defence department employees.

The motives of the anti-pornography crusaders are mixed. The moralists are in the old business of saving souls; the feminists are in the newer business of fighting what they see as the sexual exploitation and degradation of women. However, their campaign, which has generated plenty of interest but so far no more converts among other cities, has raised some ticklish questions about how far the law can and should adjudicate in the private lives and personal tastes of its citizens.

At the heart of the feminist argument is the contention that all pornography—whether soft or hard—helps perpetuate

sexual discrimination against women: therefore, pornography is a violation of women's civil rights. The simple message behind the proposed new city laws is: if offended, sue.

But what is pornography anyway? The first problem for the civil-rights groups is how to define it. According to the Indianapolis ordinance, it is "the sexually explicit subordination of women, graphically depicted, whether in pictures or in words". But even some of its supporters are now trying to amend the wording, which is so sweeping that it could cover "Gone with the Wind" or "The Taming of the Shrew".

What is more, social standards change: what might have been thought smutty 10 years ago may barely raise an eyebrow today. Making porn a feminist issue may also have clouded the argument. As some of those in the still legal end of the pornography business point out, women may generally be depicted in pornography, but often willingly—and they are sometimes the customers too.

The second arrow in the feminist-moralist quiver is the argument that pornography breeds violence. "Porn is the theory and rape is the practice", runs one of the campaign's punchier slogans. Public concern at the drift towards sadism and brutality, especially in adult home videos, has recruited extra followers to the anti-pornography camp. It has also led the campaigners into territory previously protected from public scrutiny. Under the new Indianapolis ordinance, if it is upheld in the courts, even private clubs that deal in pornography can be hit. Private viewing of pornographic materials, argue the feminists, is just as likely as any other kind to encourage some people to go out and commit sexual crimes.

Because of the legal and constitutional problems involved in pressing ahead with the civil-rights case against pornography, an alternative approach being canvassed in Minneapolis and elsewhere is to tighten up the enforcement of existing criminal law.

On May 21st, President Reagan signed new legislation that increases the penalties for the exploitation of children for pornographic purposes: among the new provisions in the law the maximum fine for a first offence is now \$100,000, up from \$10,000, and the age of those protected by the law is raised from 16 to 18. Mr Reagan also announced that a commission is to be established by the attorney-general to look into the whole problem of pornography. In 1970 an earlier presidential commission concluded that pornography had no significant impact on people's behaviour. That judgment was read by others on the commission as "a Magna Carta for the pornographer".



Shrews untamed

Other more local remedies being tried include the tightening up of zoning restrictions to force out adult bookstores and cinemas. New York's Times Square is one of the places that has felt the draught: in the past six years the number of sex-related businesses there has been halved. Atlanta has been completely purged of pornography. Sweeping porn back under the carpet will not satisfy the most radical feminist groups but it may prove more effective in the long run than attempts to reinterpret the constitution in defence of women's sensibilities.

Airports

Fly away Pan Am, fly away United

The airlines should be in seventh heaven. The number of flights is now as great as it was before the air controllers' strike in 1981 and at some airports above it. Restrictions on the number of arrivals, imposed after over 11,000 strikers were given the sack by President Reagan, have been withdrawn at all but a handful of airports. The increase in the number of flights is continuing, fuelled by the economic boom, deregulation and the onset of the holiday season. Flights were up 10% in the first four months of this year over the same period in 1983.

Yet all is not so well. Even the airlines that should be making a mint have bitter complaints about delays in landings and take-offs. The head of Pan Am has been writing daily atrocity reports to the controllers at New York's Kennedy airport; he says that 79 of 86 Pan Am flights due to land there between 3pm and 6pm over four days were delayed by the air-traffic controllers: "Pan Am is faced with an air-traffic control problem that is threatening its ability to exist as a US air carrier". Ordinary passengers may not have Mr Edward Acker's command of rhetoric, but they are being heard from, too.

Officials at the federal aviation administration (FAA) have struck back at the airlines, which, they say, deliberately bunch their arrivals at peak periods. At Atlanta, for example, 27 flights are scheduled to arrive within one seven-minute period. Moreover, as one official says, "The delays you see are the safety-valve in the system". Because there are some 3,000 fewer air-traffic controllers than there were before the strike, and fewer of them are truly experienced, the FAA has abandoned the practice of stacking incoming aircraft, which can be a ticklish job for the controller. Instead aircraft are kept waiting at, say, Kalamazoo until it is certain that they will be able to land

immediately.

With the increase in air traffic, slots, the right to land or take off at a given time, are becoming subjects of contention. The government is now asking for comment on a plan to let the airlines buy and sell slots. It proposes starting at four of the busiest airports: O'Hare in Chicago, National in Washington, and Kennedy and LaGuardia which serve New York.

Meanwhile, the air controllers are beginning to flex their muscles. They say that they are overworked—many put in a six-day week—subjected to continual stress and sometimes faced with problems that would make even the most experienced controller blanch. They cite the case of a KLM airliner making for Atlanta that was moving from the New York control area into that run from Virginia. Eight times the New York controllers tried to tell the Virginia controllers to take over; eight times there was no reply. When it came, it was a refusal, or so it is said. The man who answered was too busy with the 21 aircraft already on his plate. The KLM aircraft was recalled, but there was a sickening moment or two when it was sharing its airline with three other aircraft.

Most of all, the air controllers want a voice. They say that the FAA has failed to improve communications between the men on the radar and their managers, as it promised to do, and that the same semi-military atmosphere prevails as helped to bring on the 1981 strike. At three centres controllers are petitioning the National Labour Relations Board to let them form a union.

It is thought that the FAA may at least hold things up by objecting that only a national union, such as the vanquished, and vanished, Patco, should be recognised.

Bankruptcy

Back in business

Once upon a time there were some rather ordinary people called referees, whose task was to adjudicate in bankruptcy cases. Congress, which sometimes likes to see itself as a fairy godmother, passed an act in 1978 which turned these Cinderellas of the legal system into judges and gave them new powers to go with their new status.

Everybody was happy until, in June, 1982, along came a wicked witch called the Supreme Court, which ruled that congress had given these judges too much power over matters not related to bankruptcy and too little independence from other branches of government. The court

gave congress six months to sort their status out. It failed. Since then the bankruptcy courts, their authority extended four times by congress, have been handling only those disputes clearly to do with bankruptcy and leaving others to the district courts.

At midnight on June 27th, the coach in which the courts were borne at last turned into a pumpkin, the judges' robes to rags. But three hours later, the fairy godmother was back, this time in the guise of a conference committee of the senate and the house of representatives which managed to reach an agreement that restores the judges' finery (albeit only to the status of judges appointed under article 3 of the constitution, with 14-year terms and salaries that can in theory be reduced by congress, not to that of judges appointed under article 1 of the constitution, with life tenure and irreducible salaries). But at least the bankruptcy courts are back in business.

Under the new system bankrupt judges will be appointed by regional federal appeals courts, though they will, in effect, be adjuncts of the district courts. Their powers will be limited strictly to bankruptcy matters.

The bill that does all this went to President Reagan on June 29th. It makes it harder for individuals to avoid paying debts by declaring themselves bankrupt, and in so doing may enable creditors to collect more than \$1 billion a year that now escapes them. It gives protection to the victims of drunken drivers (who cannot now escape their obligations just by saying they are bust) and to buyers of time-shared properties. It lays down speedier procedures for sorting out bankruptcies of grain elevators and fish processing plants. It also creates 85 federal court judgeships, 40 this year, 45 in 1985. But its most notable provision, apart from resolving the judges' status, is to change the law so that companies that sue for bankruptcy under chapter 11 of the bankruptcy code cannot thereby unilaterally break contracts made with their workforces.

The new law therefore overturns a Supreme Court ruling of February this year which trade unions had seen as an invitation to companies to declare themselves bust in order to extricate themselves from their labour contracts. Henceforth companies on the road to ruin will have to apply to court to break their commitments, after first consulting (in good faith) with the union concerned. This provision does not apply, as the unions would have liked, to cases pending in court—such as one involving Continental Airlines—but acceptance of the provision none the less represents a triumph for labour.

EUROPE

Born-again anti-corruptionist, or Chernenko defied?

FROM OUR MOSCOW CORRESPONDENT

Some of the high-living Soviet citizens who looked forward to a renewal of the good life when Mr Konstantin Chernenko became the country's leader last February have had a nasty shock. On June 26th the party leader of the central Asian republic of Uzbekistan, Mr Inamzhon Usmaniodzhaev, announced that dozens of senior officials, including the republic's finance minister, had been sacked for corruption. Three days earlier, in the Baltic republic of Latvia, the local party chief, Mr Boris Pugo, had read out a litany of crimes, ending the political careers of 122 party members and giving a sharp warning to another 100 or so.

Has the apparently easy-going Mr Chernenko belatedly caught the anti-corruption bug from his predecessor, Yuri Andropov, or does his writ not run as wide as his supporters had hoped? Even during Leonid Brezhnev's last years, when corruption flourished in the Soviet Union, republics such as Georgia and Azerbaijan which allowed graft to become too public could expect periodic shakeouts. As party leader, Andropov bore down more fiercely on corruption—and poked more closely into the affairs of his opponents—than his immediate predecessors had.

Some letting up was to be expected;

and, under Mr Chernenko, some letting up there has been, especially at the higher levels in Moscow. None the less, in exchange for getting the job of leader, Mr Chernenko may have agreed to let his chief rival, Mr Mikhail Gorbachev, continue with a purge of the most blatant racketeering.

By all accounts, both Uzbekistan and Latvia have outdone themselves in the scale and ingenuity of their corruption. According to Mr Usmaniodzhaev, "moral decline and degradation" reached to the top of Uzbekistan's Communist party and government. The party bosses in four cities and two regions are to be tried for embezzlement. Several of the republic's ministers have been sacked. Many other officials have been ousted for fiddling production figures. The local Uzbek paper, *Pravda Vostoka*, says that the republic's record cotton harvests from 1978 to 1982 were based on falsified figures. (Uzbekistan officially produces

Better to let the Sakharovs go

According to President Chernenko, attempts by outsiders to lecture Russia on human rights raise only "an ironic smile". The smile gave way to a gasp of surprise when President Mitterrand mentioned the Soviet Union's best known dissident, Mr Andrei Sakharov, at a Kremlin banquet on June 21st. Then the Russian smile quickly returned. Britain's foreign secretary, Sir Geoffrey Howe, made even less impact when he raised the matter of Sakharov in Moscow on July 2nd. But are the Russians as unruffled as they pretend to be?

Nothing has been heard from Mr Sakharov since May 6th, when a close friend reported that he had begun, four days earlier, the hunger strike he had threatened unless the authorities let his wife travel to the west for medical treatment. Friends and foreigners have been prevented from making any contact with the couple in the closed city of Gorki, where Mr Sakharov was sent in 1980.

The Soviet government does not seem to be worried by the implications for the Sakharov case of the human-rights provisions of the 1975 Helsinki agreement. It has also ignored Mr Sakharov's repeated requests to be put on trial. He has not been charged with any offence, and his exile in Gorki has no apparent justification in Soviet law. When pressed to describe his supposed offence, Russians

tend to rely on vague formulas such as "betraying the motherland"; in other words, he has disagreed with the Soviet government in a way that foreigners could hear.

Some Russians even argue that Mr Sakharov achieved prominence only after he received the Nobel peace prize in 1975, an award which was, they claim, an act of western provocation. In fact, Mr Sakharov had been well known in the west at least since 1970, when he had founded the Committee for Human Rights with a small group of other

scientists.

What may in the end bother the Russians is the terrible press their treatment of Mr Sakharov is getting them in the west. They have tried to calm western concern by insisting that Mr Sakharov is "alive and well". Pictures of husband and wife, said to have been taken recently, were released to back up the Russian claim. And it may not have been mere carelessness by the KGB that allowed the first independent news of Mr Sakharov's wife, Elena, to reach the west last week.

It came in a letter from a friend of Mrs Sakharov, dated June 12th, which found its way to a Soviet exile in Munich. The writer reports seeing her make daily visits to a bakery in Gorki, accompanied by two people presumed to be KGB agents. This suggests that Mrs Sakharov is no longer on the hunger strike which she is believed to have started about a week after her husband. Of the unseen physicist himself there is still no word.

After the reminders from their western guests in the Kremlin, the Russians know that they will not be allowed to forget the Sakharovs. Will they also realise that it may be in their own best interest to let the couple go? The Solzhenitsyn case suggests that a dissident usually causes the Soviet government less trouble outside Russia than he does while still at home—once the first excitement of the famous man's arrival in the west has died down.



Anyone seen them?



Uzbekh money is made to go round

around 6m tonnes of cotton a year, about two thirds of the Soviet total). In Latvia, theft and embezzlement were rife in agriculture, the building trade and light industry.

That could point to the done-with-Chernenko's-blessing theory. But both Mr Pugo, who took over Latvia in April, and Mr Usmanhodzhaev, who vaulted to the head of the Uzbek party after the death last October of Mr Sharaf Rashidov, are young men in Mr Gorbachev's mould. By contrast, Mr Rashidov had been a former Brezhnev crony. By exposing the corruption that flourished under him, Mr Usmanhodzhaev was also pointing the finger at the old Brezhnev clique—and the man who inherited its support, Mr Chernenko himself.

Mr Gorbachev has also been pushing for some far-reaching changes in the way the Soviet economy is managed. In both Uzbekistan and Latvia there have been strong attacks on bureaucracy and paper-pushing, which have hindered the work of factories and farms. That is all good ammunition for Mr Gorbachev. He wants the modest experiments in economic reform begun under Andropov—which gave industries a bit more freedom to run their businesses—to be adopted on a national scale when the draft of the new five-year plan for the economy is published next year.

Although the anti-corruption drive in the two republics carries the Gorbachev stamp, not everything is going his way. During the power struggle behind the scenes in Andropov's last months, the Andropovites around Mr Gorbachev attacked Mr Chernenko's old power base in Moldavia, singling out the republic as a symbol of much that was rotten and

inefficient in the Soviet Union. Local party chiefs were told to straighten things out. Last week the Moldavian party announced the results of its investigations. Only one minister was sacked. Clearly, Mr Chernenko is still number one to Mr Gorbachev's number two.

France

The hint of Mitterrandisme?

FROM OUR PARIS CORRESPONDENT

President Mitterrand of France is not easily panicked. He is facing his greatest test since taking office three years ago. The union of the left, on which he based his long march to the Elysée palace, appears bankrupt. The Socialists and Communists are at their lowest ebb since coming to power in 1981. Neither profits much any more from their association. Mr Mitterrand has this summer to solve his administration's difficulties and to give his Socialists a fighting chance in the parliamentary elections in 1986.

Mr Mitterrand is showing no sign of concern about all this. After the demonstrations against the government's bill to increase the state's control over private schools, he said he was perplexed by the discontent in the country. The slump by the left to a third of the vote in the European election on June 17th elicited from the president merely a reflection about France blooming in the midst of difficulties. Three days later, Mr Mitterrand went to Moscow, and then wound up France's EEC presidency at the Fontainebleau summit on June 25th-26th on a rare note of achievement. Now he is flying to Jordan and Egypt to see what he can do to help matters in the Middle East.

Mr Mitterrand's dislike of being hurried was shown most strikingly in March last year, when he took a week to decide to abandon his original economic policy in favour of an austerity package urged on him by the finance minister, Mr Jacques Delors. Mr Mitterrand's difficulty is that economic retrenchment in 1983 was not accompanied by a political reshuffle. The Communists stayed in the government, despite their intense opposition to the new policy. The left wing of the Socialist party got soothing words from the Mitterrandists about the need for growth, but Mr Delors proceeded to deflate regardless. A government which had come to power pledged to keep unemployment below 2m allowed the number of jobless to rise to 2.3m.

The European election brought home just how much the improvisation of the past year has harmed Mr Mitterrand and

his government. The president's strategy of building up Socialist support among defecting Communist voters has now had its day. The Communists dropped to a post-1945 low of 11.3% in the European voting. The Socialists won only 20.8%. The floating vote, which sent Mr Mitterrand to the the Elysée in 1981, has now moved strongly to the right. Mr Delors gets respect from middle-of-the-road voters and scores well in opinion polls. But those voters include a large number of people who have been antagonised by the private-school legislation and who are influenced by the claim, loudly promoted by the conservative opposition as its current theme, that the Socialists are at heart a doctrinaire party which neglects personal liberty.

Mr Mitterrand has 18 months in which to win such voters back if the left is to emerge strongly enough from the 1986 national assembly election to form a government. His immediate problem is the Communist party. Its disastrous showing in the European election set off an intense private debate which has already spilled over into public view.

Mr Marcel Rigout, the Communist minister for professional training, was quoted as saying that the Communist leader, Mr Georges Marchais, had failed and that the party needed a cultural revolution. Despite unusual signs of independence from unhappy members of the central committee, and kite-flying remarks about internal democracy from the party spokesman, Mr Pierre Juquin, real change among the Communists is likely to take a long time. Until then, the party will continue to suffer from the tension of belonging to a government it detests. And the more orthodox and loyal to the Soviet Union it remains, the longer it will suffer from the unhappy formula Mr Rigout sums up as: "Communist party=Soviet Union=gulags".

The Communists' decline sharpens the need for new support if the left is to survive in government beyond 1986. According to exit polls, neither Communists nor Socialists would have done as badly if the June 17th election had been for the national assembly, rather than the European parliament. But, as Mr Delors pointed out to a Socialist party management committee meeting on July 1st, a 30% Socialist vote and a 12% Communist vote—about the best that could be hoped for at present in a parliamentary election—would still add up to only 42%.

The European election has also dealt a blow to Mr Mitterrand's hopes that a centre-left movement might emerge to provide his government with the support it needs. A joint list run by moderate Radicals and ecologists won only 3.3%, less than the 11% which the Communists

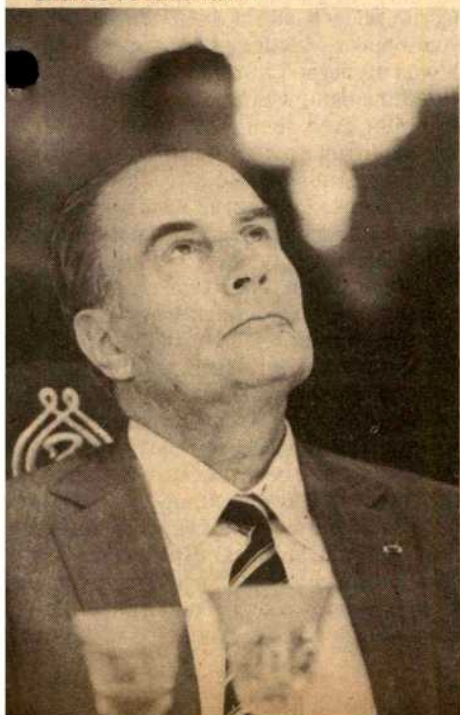
and the National Front each scored.

Left-wing Socialists have seized on the failure of a centre vote to emerge as proof that moving to the right is a mistake. But a move to the left would hardly solve Mr Mitterrand's problems either. In the end, the president may calculate that left-wing voters have nowhere else to go—and will not abstain for fear of letting the right return to power. For all their denunciations of austerity, the Communists still insist that they want to stay in the government. The loyalty of the Socialist party to Mr Mitterrand remains immense.

One sign of how the president intends to play the next 18 months will come when he names a new prime minister to replace the struggling and unpopular Mr Pierre Mauroy. The job could go to half a dozen candidates, ranging from the ultra-loyalist Mr Louis Mermaz, president of the national assembly, to Mr Delors or the popular social democrat, Mr Michel Rocard. Mr Rocard, the agriculture minister, was formerly Mr Mitterrand's main rival in the Socialist party and is disliked by the party bosses. But he is one of the few politicians who could quickly rally support to a new government.

Important as the choice of prime minister will be, Mr Mitterrand is likely to find that, more and more, he himself is the decisive factor. Presidential aides have taken to talking about "Mitterrandisme" in the way people speak of Gaullism. This may seem pompous and premature, but it reflects one possible outcome of the president's thinking. A strong presidency, drawing on left-wing roots but seeking broader national appeal, could be the most promising way out of Mr Mitterrand's dilemma.

Charles de Mitterrand?



France and Spain

No sanctuary

FROM OUR SPAIN CORRESPONDENT

In March they were throwing fish at each other. Then they were arm-in-arm. Now it's tomato-hurling time. In Madrid, on June 29th, President François Mitterrand of France assured Mr Felipe Gonzalez, the Spanish prime minister, that he sincerely wanted Spain to join the EEC. Soon afterwards, in the eastern Pyrenees, fruit began flying between quarrelling French farmers and Spanish lorry-drivers, who evidently had not heard of the entente at the top.

France and Spain will probably always be awkward neighbours. But the French and Spanish governments have recently narrowed their differences on two troublesome issues: Eta guerrillas in south-west France and the terms for Spanish entry into the EEC.

In the days of Franco, many Frenchmen thought of the militant Basque separatist group Eta as a resistance movement that deserved unspoken sympathy. The interior minister, Mr Gaston Defferre, who himself was once inclined to this view, now agrees with the Spaniards that Eta gunmen who cross the border into France are no longer to be treated as political refugees.

Despite Spanish doubts about their seriousness, the French authorities are taking action. They are going to be more careful about which Spanish Basques they give residence permits to. On July 2nd, Spain's interior minister, Mr José Barionuevo, briefed Spanish consuls in southern France on a plan of his and Mr Defferre's to let some 200 former members of Eta return safely to Spain. Providing they have not engaged in violence, the Spanish have apparently agreed to treat them leniently.

The French and Spanish police are swapping information about the whereabouts of Eta guerrillas. In recent weeks, the Spanish police have carried out several raids on Eta hideouts in Euskadi, the Spanish Basque country. The French have moved 30 Eta men living in the French Pyrenees to north of the Loire river and told them that they will be expelled if they go south again. The French threw out five Eta guerrillas last week, bringing to at least 20 the number of those deported since January. Most of these have gone to Latin America.

Attacks by the shadowy anti-terrorist group Gal have helped to make Eta's traditional sanctuary in southern France seem far from secure. Eta documents captured by the Spanish police contain the plaintive warning that Eta is in danger

of being destroyed by a combination of Gal, the French authorities and the Spanish "military occupying power".

The Spanish government is equally pleased with French behaviour in the EEC. It thinks that the success of the Fontainebleau summit, for which it gives France the credit, will make Spain's entry negotiations easier. Mr Gonzalez is grateful to Mr Mitterrand for having helped speed up the community's talks with Spain during the six months of France's EEC presidency, despite the hostility of French farmers. The talks remain difficult, especially on fishing rights. But Spain has won some concessions from the community on farming and industrial goods. According to Mr Gonzalez, Spain should be able to join the EEC, on schedule, in 1986—the year in which Spain's next general election is due.

Turkey

A turn of the screw

FROM OUR ANKARA CORRESPONDENT

The Turkish government last week ended martial law in 13 more of the country's 67 provinces. There are now 26 provinces where the army no longer controls law and order, although in 11 of these there is still a state of emergency (in which extensive summary powers are wielded by the provincial governor, not by the army). The government and the military chiefs do not expect to complete the removal of martial law for several years. In such places as Istanbul, Ankara and Izmir, there are still fears of a return to the street-fighting and assassinations that preceded the army's takeover in 1980.

Such cautious moves may not satisfy western critics of Turkey's record on human rights. The European Commission of Human Rights in Strasbourg will soon have to decide whether to extend its inquiry into alleged abuses of human rights in Turkey between September, 1980, and July, 1982, to include complaints of current malpractices.

The immediate focus of attention is the martial-law authorities' decision to prosecute 56 scholars, writers and lawyers of left-wing sympathies who, in May, circulated a human-rights petition. This called for a wide range of democratic freedoms, as well as an amnesty for the thousands of alleged left-wing guerrillas held in prison.

A storm is blowing up about conditions in Turkish prisons. In the past two weeks, four inmates in an Istanbul military penitentiary have died as a result of hunger strikes started in April. Earlier in the year there were eight similar deaths at Diyar-



It's safer to protest about human rights in Turkey when you're a guest in West Germany

bakir in south-eastern Turkey (a Kurdish stronghold) and at Mamak prison in Ankara. Prisoners' relatives claim that there have been many more deaths, but a group of European parliamentarians who visited Diyarbakir three months ago found that some of the prisoners said to be dead were alive, and tolerably well.

As well as an amnesty, the prisoners have demanded to be treated as political detainees, not criminals, and to be given special uniforms and unlimited exercise periods. The authorities have reacted with predictable toughness. They no longer try to argue that Turkish prison conditions are comparable with those of western Europe. They claim that prison officials are being driven to adopt harsh measures by the prisoners' behaviour.

Poland

To a reluctant confrontation

The Polish government is about to have a showdown it wanted to avoid. On July 13th, the trial will begin of four former leaders of the Workers' Defence Committee (Kor) who have been under arrest since martial law was imposed in Poland in 1981. The government has been under pressure from Russia—and from its own party hardliners—to blame Kor for Poland's upheaval in 1980-81. But it justifiably fears that the trial will backfire.

The four accused—Jacek Kuron, Adam Michnik, Zbigniew Romaszewski and Henryk Wujec—are delighted to be able to defend themselves in public after

A potentially more dangerous argument is developing over the fate of Mr Alparslan Turkes, who led the former far-right Nationalist Action party and allegedly sponsored the notorious Grey Wolves, who killed many members of the left during the urban warfare of the 1970s. He has been held for nearly four years, and his trial looks like never coming to an end. His numerous supporters within the army argue that he should be released, if only on compassionate grounds (he is 67 and has heart trouble). Mr Turkes is the only political party leader of the old civilian regime who has not been freed.

There will probably be no early amnesty for anybody. At least on this point, President Kenan Evren and the prime minister, Mr Turgut Ozal, seem to agree.

spending two and a half years in prison. They intend to use the dock as a political platform. However slowly, things do change in eastern Europe. In Poland in 1984 there will be no east European show trials of the Stalin sort, when the accused, bewildered and broken, admitted to committing invented crimes.

The theme of Kor from its foundation in 1976 was the need for workers' rights in Poland. The four defendants forged the first real link between Poland's dissident intellectuals and its unhappy workers. They successfully defended workers whom Edward Gierek's government had

singled out for punishment in the wake of protests against food price rises in 1976. Then, expanding their activities, they helped to develop the "flying university", which gave lectures around the country; they printed their own newspapers, including the influential *Robotnik* (The Worker); they spread the idea that Poland needed an independent trade union movement. When the strikes that led to the creation of Solidarity began in the summer of 1980, Kor kept the west informed, and the news it supplied was beamed back to Poland. When Solidarity had been established, Kor's role inevitably diminished. In September, 1981, the organisation dissolved itself.

In the eyes of the regime, all this is enough to justify accusing the four Kor men of "preparing to overthrow the system by force". The four deny the charge, insisting that they used only non-violent methods of resistance. They hope to turn other items in the indictment to their advantage. They do not in the least mind accusations of wanting "a political system based on the broad development of the self-management movement, independent of the state and party authorities", and of demanding "the recognition of the right to organise independent union structures and the right to strike".

The prospect of providing an eloquent opposition with a very public forum is not the government's only worry. It also has to decide what to do with the seven prominent Solidarity members who have been kept in prison without trial since 1981. It might wish to avoid another difficult trial by releasing them. But that would lead to accusations of discrimination against the Kor four.

Conscious of these difficulties, the government tried to sidestep a trial by offering to release all 11 prisoners if they would make a pledge of temporary withdrawal from politics. The prisoners rejected the deal, which would have meant betraying both their political principles and their friends who are still at large in the underground Solidarity movement. And simply to let them go would presumably have brought down the wrath of the Soviet Union.

General Jaruzelski's government is stuck with the consequences of its 1981 decision to crack down on Solidarity. Any real compromise in Poland would involve a return to the Gdansk agreement of August, 1980, in which the communist party agreed to share some of its power with an independent labour movement. The opposition is not strong enough today to demand so sweeping a concession from General Jaruzelski. But neither is it entirely broken. That is why the government is nervous about the trial it has reluctantly decided to hold.

Bulgaria

A lesson for the teacher

FROM OUR SPECIAL CORRESPONDENT IN SOFIA

More than 10 centuries ago the Bulgarians taught the Russians the Cyrillic alphabet. Today, the Bulgarians are giving the Russians a lesson in how to make a planned economy more efficient. Russia's interest in Bulgaria's success is not difficult to understand. Bulgaria has outperformed the other east European economies, with an impressive record of low foreign debt, abundant food supplies, and economic growth (which it claims has averaged 4.1% over the past three years).

Bulgaria's tutoring job in economics is new. During most of its 40 years under communism, the main economic drive—in terms of fuel, equipment and ideas—has come from the Soviet Union. The Russians sent Bulgaria cheap oil, nuclear reactors (now supplying 30% of the country's electricity) and central planning. In return, the Bulgarians gave the Russians food and loyalty. This trade helped lift Bulgaria out of its pre-war backwardness. In Comecon, the Russian-led economic grouping, Bulgaria now specialises in such up-and-coming products as electronics and fork-lift trucks.

Not that Bulgaria has solved its economic problems. The infuriating word *nyama* ("there is not") is still too common in service-without-a-smile shops and restaurants. Wrinkled peasant faces in the countryside are a reminder of the harsh life from which many Bulgarians have only just escaped. Yet living standards have unmistakably risen. The capital, Sofia, is a modern city with noisy traffic, pleasant parks and street cafes. Young Bulgarians have a taste for disco-theques and smart clothes.

As success raises expectations, many of the younger generation of Bulgarians are beginning to look to the west rather than to the past for a measure of Bulgarian achievement. This means that planners must be readier to take risks. The new watchwords are efficiency and quality—just what central planning in the Russian style is bad at providing. Simply piling on inputs does not help. Russia's own problems are making it less generous with raw materials; and the supply of labour is tight, since the flow of people from country to town has dried up and the birth rate is dropping.

Bulgaria's answer is cautious economic reform. Change has come in steps since 1979. Reform involves simplifying, not abandoning, central planning. The aim is to cut paperwork and to give enterprises



The scriptwriters were Bulgarian

the breathing room and the incentive to take initiatives of their own.

The number of planned production targets was reduced to the minimum needed to keep a broad economic balance. Enterprises are now left to work out details for themselves. They have some freedom to choose product lines and to compete with one another. Enterprises are also getting encouragement to find extra reserves in their "counter plans": if they discover that they can produce more than the plan calls for, the central authorities cannot inflate the original targets. By allowing some wriggle-room in the plan, the Bulgarians hope to avoid stifling shortages and rigidities.

As a spur to better performance, workers get bonuses if the enterprise's income is higher than in the previous year. High interest rates punish inefficient enterprises. Lower prices penalise shoddy production. Within enterprises, the brigade system is meant to give workers more freedom. Brigades already work on farms: teams of workers get the materials they need for a given output; but they can arrange their work as they please, and they get paid by results.

A powerful voice for reform is the Bulgarian Industrial Association. Set up in 1980 by Mr Ognian Doynov, a member of the politburo, it acts as a spokesman for industry and as a channel for new ideas. One of its pet schemes is the setting up of small enterprises capable of reacting quickly to new opportunities. But the BIA stops short of advocating private

enterprise outside agriculture (where privately worked plots already provide about a quarter of production).

Can the Bulgarian compromise succeed? At a special party conference in March the party leader, Mr Todor Zhivkov, criticised unadventurous officials and complained of delays in bringing brigades to industry. Some western observers think that even if Bulgaria completes its current reform, it will soon have to follow Hungary down more daring roads. They could be right. But since 1979 the Bulgarians have more or less met their targets.

The Russians are wondering how to import this success. They have already adopted a brigade system on their own farms. Reforming Soviet industry along Bulgarian lines would be more difficult to manage in a country of 270m people compared with Bulgaria's 9m. One idea, however, is that a bolder Kremlin leadership might reorganise the Soviet economy into smaller regional units. This would create, in effect, dozens of small Bulgarias. The attraction of the Bulgarian model is that it offers the prospect of greater economic efficiency without irreversibly changing the system of central planning—a strong selling point for the cautious Russians.

The Germanies

Gatecrashers can't spoil this party

Relations between the two Germanies may be taking yet another turn for the better. By mid-week all but six of the 55 East Germans who had sought refuge in the West German mission in East Berlin in the hope of getting exit visas had left of their own accord. All are expected to leave for the west in due course, by the more usual routes.

The latest flood of would-be emigrés had not only threatened to disrupt plans for a visit to West Germany in the autumn by the East German leader, Mr Erich Honecker. It had also obliged West Germany to close its East Berlin mission for several days in an effort to stem the flow. The awkwardness was short-lived, and, as the refugees headed for home, reports were circulating in Bonn of a new package of agreements designed to make sure that the Honecker visit is a success.

News of the latest agreements was leaked on July 4th by West German television, although the government spokesman, Mr Peter Boenisch, refused to confirm or deny the accuracy of the reports. The agreements are said to include West German government guaran-

EUROPE

tees for another private bank loan to East Germany. A similar loan of DM1 billion (\$392m) was agreed upon last year. The new loan will probably be for some DM900m.

In return, East Germany is said to have agreed to lower the amount of money, raised to DM25 in 1980, that West Germans visiting East Germany and East

Berlin are required to change at the border. Last year, the East Germans removed the requirement altogether for youngsters under 15.

Other parts of the package may include permission for more East Germans to emigrate legally and so avoid the embarrassing queues waiting to crash the West German mission in East Berlin. There

could also be better opportunities for East Germans to spend their holidays in West Germany, a treat so far limited only to pensioners. And if Mr Honecker's visit to West Germany goes ahead as planned later this year, there may even be a new cultural agreement for him and the West German chancellor, Mr Helmut Kohl, to sign.

June in the EEC

Politics

At their Fontainebleau summit meeting, on June 25th-26th, the Ten at last resolved the long-running British budget problem. They agreed to annual rebates, from 1985 onwards, of 66% of the difference between British Vat payments to the community and the value of EEC expenditure in Britain. This should save Britain some £630m in the first year, and more subsequently. The limit on national Vat contributions will rise from 1% to 1.4% of Vat levies by 1986, and may rise to 1.6% after 1988. The West Germans will be excused a third of their share of the costs of the British rebates. They also got special permission to compensate their farmers, at their own expense.

The second direct election to the European parliament showed a slight swing to the left, but the centre and the right-wing parties retained a small overall majority. The turnout, at 60%, was 2% down on 1979, with Britain's 32.4% again by far the lowest.

New members

Talks with Portugal on agriculture went well. Both sides now expect agreement to be reached during July. Talks with Spain were more difficult. But, after contacts between Spanish and French ministers, the EEC improved the terms previously offered on agriculture and on industry. The two sides are still far apart on fisheries. At Fontainebleau, the Ten endorsed the deadline of January 1, 1986, for Spanish and Portuguese entry. President Mitterrand went out of his way to associate France with this undertaking by making lightning trips to both Lisbon and Madrid in the closing days of the French presidency of the EEC.

Trade and industry

Ministers voted to allow France to limit imports of quartz watches from Japan and south-east Asia. West Germany, Denmark and Holland opposed the measure but were outvoted. Despite its own restrictive trade policies, the community said it would retaliate if the Reagan administration gave in to pressure from American steel companies for more import cuts. Britain blocked a resolution,

endorsed by the other nine, giving tentative backing to cutting working hours as a way of creating jobs.

The Ten and the 64 African-Caribbean-Pacific (ACP) states missed their end-June deadline for completing talks on a new trade and aid convention. The biggest obstacle is that the Ten cannot agree on the amount of financial aid in the new convention, due to come into force next March.

Agriculture

After six months' wrangling, the community decided to prolong its deal on New Zealand butter for another three years. New Zealand's export quota for this year will be 83,000 tonnes. The EEC's own butter mountain is now more than 1m tonnes. Farm ministers agreed to set up agencies in Italy and Greece to reduce fraudulent claims for EEC aid from olive oil producers. The agencies are expected to save the community budget at least 70m ecus (\$56m) a year.

Finance

Finance ministers increased the ceiling on the amount of international loans the community can raise for member states with balance-of-payments difficulties from 6 billion ecus to 8 billion. The main pressure for the increase came from Italy and Belgium.

Competition

The commission opened antitrust proceedings against 15 chemical companies for allegedly running a market-rigging cartel for propylene. Those under investigation include companies domiciled in the United States, Austria and Norway. Propylene is used to make films and plastic wrapping materials.

Court of justice

The court censured Italy for failing to apply, within the prescribed time limit, a 1980 directive on harmonising tobacco taxes. The commission asked the court to rule that France was at fault in not recognising certificates of approval for tractors granted by other member states.

It also sought a ruling from the court that a group of Belgian insurance companies was not entitled to avoid paying compensation to a commission employee who lost his job while suffering from a "profound depression". This constituted a "professional disability", according to the commission.



A Belgian court sought a ruling on the legality of a Belgian law imposing a five-year residence qualification before other EEC nationals could claim a minimum income supplement from the Belgian social security system. The British tobacco group, BAT, took the commission to court for failing to forbid co-operation agreements between two of its rivals, Philip Morris and Rothmans, which, according to BAT, distorted competition.

Directives

Ministers approved a directive for the harmonisation of national laws on misleading advertising. This was welcome since the growth of satellite and cable television will lead to a rapid increase in transnational advertising. Ministers also endorsed a directive on the transport of dangerous waste substances within the community. The producer of waste will be responsible for arranging and paying for its shipment and for observing safety requirements.



by Barty Phillips

CORBY WORKS



Barty Phillips was Home Correspondent of The Observer for fourteen years. She also writes for the architectural publication Building Design. She has written several books on practical subjects, contributes to several more and appears from time to time on television and radio.

She lives just outside Welwyn Garden City, one of the first New Towns in Hertfordshire and was one of the first journalists to interview the women who moved into the first estates at Milton Keynes.

The first thing you notice about Corby is, one minute you are driving along through richly brown and green countryside shaded by stately trees and dotted with rivers and water, the next you are in the town centre. There are no miles of suburban buildings, no traffic congestion: in five minutes you are at the shops with plenty of space to park a car and everything within easy walking distance.

It must be one of the few industrial towns in Britain which still has the air of being a village.

The town itself is built in a series of separate estates. Each one has its own little shopping centre, its own school, several mothers' clubs and nursery schools, its own pub and a bus service running half-hourly into the centre. Corby is so neat and contained that you can walk to the centre of work and back home again in the evening.

ASK LYN!

Lyn, a secretary who lies in the 'old village part of Corby' in a house built in the twenties, plays squash or goes swimming in her lunch hours. There are several excellent bakers (Lyn says Katrina's Patisserie is best), a Sainsbury's and three other supermarkets, a fair-sized Co-op, Littlewoods, Woolies, Mothercare, Boots and Maples—you can get keys cut and there's a pet shop full of canaries and chinchillas.

The Post Office is here with the Housing Department above it. 'It is very easy to buy a house. In addition with rented accommodation new companies get priority for their key workers.' The Civic Centre, the Health Centre and JobCentre are each about two minutes walk away.

Corby's bustling market with striped awnings is full of character and very much alive. Local stalls include a Nottingham lace stall on Fridays, one for vacuum cleaner spares and a Thursday fish stall (operated, so they say, by an ex steel worker who applied for permission to sell fish when the steelwork closed down).

SOCKS AND PANTS

Clothes shopping is pretty good for the young and what you don't find in Corby you will certainly find in the neighbouring towns: Kettering has a Marks & Spencer; Northampton is popular for shopping and boasts a Debenhams and a Beatties. Twenty minutes drive away at Peterborough there is Queensgate voted European Shopping Centre of the Year.

Corby itself has efficient, if eccentric, transport. A bus-like taxi service operates with enormous friendliness and plenty of cabs. 'If I want to get home after work I start walking—a taxi always turns up within five minutes,' said a cheerful secretary. Sharing taxis can be cheaper than taking the bus, though a perfectly efficient bus service exists also.

CURIOSLY COSMO

In 1953 there were 25 different nationalities in Corby—including Scots, Welsh, Chinese and Vietnamese—mostly second or third generation. This makes it a curiously cosmopolitan town in spite of its small size and industrial emphasis. And of course it has a tremendous number and variety of different clubs and organisations. I don't know of any other town with so many different interests. These clubs put on a lot of entertainment: concerts, dances, visiting artists, speakers, social evenings and so on. There's the Inner Wheel, the Siroptimists, The Grampian Club (used to be the Aberdonian), the Welsh Club, several branches of the Townswomen's Guild, The Business and Professional Women's Club, a Darts Club, to name but a few. There's something going on almost every night of the week. Lyn goes to barn dances with her husband. Her parents joined the Grampian Club which built itself a new home four years ago and then they had a bowling green laid now in daily use.

The Festival Hall, facing the shopping centre, holds dances and concerts. Its Willow Room is hired out and there's a

theatre at the back for visiting productions. Among other attractions that have appeared there are the Bridge End police male voice choir, 'put up by the Welsh Society of course.' The hall holds 1400, is very versatile and the acoustics are good.

TEACH-IN

The Technical College, just next door, runs courses. 'We are lucky because they haven't cut the leisure course here, as they have in so many other towns and there's a big choice of things you can do. I'm doing a tailoring course because the dressmaking one was full and they were very nice and didn't mind my starting from scratch.' The college also runs a creche for babies of mature students.

I enjoyed visiting Corby and having brought up three children I wouldn't mind living there.

This article is number seven of a series. They will be published together as a brochure entitled The Ecorbyist.

Copies will be available from Corby Industrial Development Centre, Douglas House, Queens Square, Corby, Northants.



PRELIMINARY RESULTS FOR THE YEAR ENDED 31 MARCH 1984

Getting into Shape

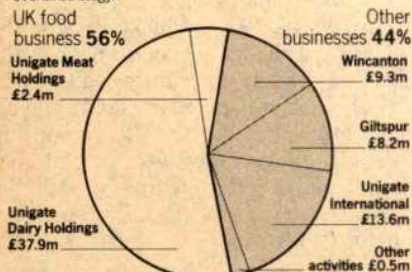
As Unigate's long term strategy begins to bite, results reach record levels.

Our record '83/84 pre-tax profits signal the beginning of a new chapter for the Unigate Group. We have now achieved two major objectives – the revitalisation of our UK-based food operations, and the rebuilding of the Group structure as a base for future expansion.

Despite substantial costs, we produced a modest cash inflow of £2.9m during the year after a £20.9m outflow in the previous year. Unigate's balance sheet is now in good shape and we look forward to strong cash generation in the future. The Group has also made progress towards achieving other parts of its strategy.

Operating profits from activities outside the UK food business now account for 44% of the £71.9m Group total.

This figure should be compared with that of less than 25% five years ago and it reflects the continued success of the overall strategy.



Unigate is now concentrating its activities in three main business areas – the manufacture and distribution of food, transport and distribution services, and exhibition and specialist engineering services. We have continued to reduce our dependence on declining markets and in particular on the market for UK milk products. At the same time we are improving our position in growth markets.

We also intend to attain performances at least equal to our most effective competitors in each of our markets.

Through a programme of developing our existing business structure, we seek a balance between quality of earnings and growth.

Return on trading capital again increased from last year's figure of 14.4% to 17.4%. Operating profit as a percentage of sales rose during the year from 3.7% to 4.1%.

FINANCIAL HIGHLIGHTS	'83/84 £m	'82/83 £m
Turnover	1,766.2	1,622.1
Operating profit	71.9	61.1
Profit before tax and extraordinary charges	57.1	43.7
Extraordinary charges	26.7	13.7
	p	p
Earnings per share	18.5	14.1
Dividends per share	7.5	6.8

The above figures are extracted from the full accounts (on which the auditors have given an unqualified report) which will be contained in the Annual Report to be posted to Shareholders on 9 August 1984.

Divisional Review

Giltspur achieved a dramatic increase in profits during 1983, from £3.8 to £8.1 million. This has been one of the principal reasons for the 44% of Group operating profits produced by activities outside the Group's UK food business.

Wincanton's steady progress on all fronts has also helped to boost their results. The growth in **Unigate International's** profits would have been greater but for the US Government intervention in the American cheese market.

Unigate Dairy Holdings' share of Group profits has now fallen to 53% despite a 16% year-on-year increase in the division's own results – a fine performance against a background of well-known problems which have dogged the division's markets for milk products. Major capital expenditure and streamlining of existing plant have begun to yield the expected returns.

Unigate Meat Holdings, however, was unable to capitalise on last year's turnaround. We have undertaken a close review of all companies in the division which were not performing at optimum levels. As a result, three companies, including Henry Telfer, have been disposed of, holding out the prospect of a more satisfactory profit level for the division.

Prospects

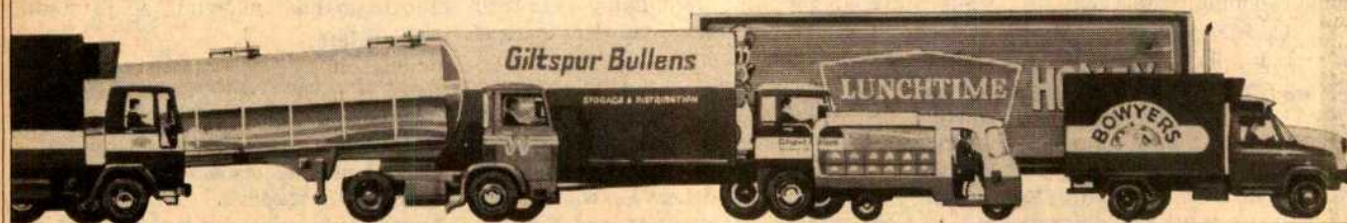
Unigate has undergone a radical restructuring of its business, and is now in a strong position to benefit from an increase in consumer spending on food and services, stimulated by an improvement in the economic climate at home and overseas.

Unigate is getting into shape for a successful future.

JOHN CLEMENT
Chairman & Chief Executive

If you would like a copy of the 1984 Annual Report to be published on 9 August, please write to:
Company Secretary, Unigate PLC,
Unigate House, Western Avenue,
London W3 0SH.

Name _____
Address _____
Postcode _____



BRITAIN

Lords ain't what they used to be

The prime minister and her accident-prone environment secretary, Mr Patrick Jenkin, were binding up wounds inflicted by their friends this week. The once loyal house of lords had thrown out their plans to abolish elected government in London and the six metropolitan county councils for a period of some 12 months before the abolition of the councils themselves. The cabinet was expected to accept their lordships' verdict, to save what it could of the Local Government (Interim Provisions) bill—the so-called paving bill—and of what is left of its own face.

The opposition peers' amendment which did the damage was cunningly drafted. It changed the timescale of the paving bill so that the government could not cancel elections to the offending councils until after the abolition legislation proper had received royal assent—rather than, as the government proposed, after the bill's second reading in the commons. As a Tory peer tartly remarked, "the legislature of this realm is the Queen in parliament", not, he might have added, Mrs Thatcher and the commons payroll vote. The amendment went through by a majority of 48—a worse humiliation than even the opposition had dreamed of, and more than a little due to a widespread Tory revolt.

The amendment implies that the elections due next May must go ahead. The government would like a compromise whereby the existing councils would merely continue in power without new elections. Not enough, cried a triumphant Mr Ken Livingstone, eager for what would amount to a referendum on the survival of his Greater London Council and confident of winning it. He is not the only objector. There are anti-Labour voters who do not see arbitrary prolongation of his, or the other metropolitan counties', regimes as any more democratic than arbitrary removal of them.

Mr Livingstone is pretty certain to be denied his chance. If so, he has given warning that some Labour councillors in London will resign their seats to force by-elections this autumn. The government

reaction is to suggest that Tories might not stand against the Labour councillors seeking re-election. Supposedly this would reduce the elections to a farce. In reality it might merely give the alliance a free run to prove its credibility. Could Conservative party managers risk that?

Any plans to modify the effects of the government's defeat now depend on persuading the lords to accept a further amendment on the report stage of the paving bill before it returns to the commons. Can the government's business managers in the lords do it?

Getting government business through is the responsibility of Lord Whitelaw, leader of the upper house, and Lord Denham, the government chief whip. This week there was muttering among Tory peers and MPs that "Willie and Bertie have blown it". Lord Whitelaw is thought to have assured the cabinet, when the implications of the local government legislation were under discussion, that when the crunch came the government could count on the loyalty of the Tory peers. But their lordships do not take kindly to the sort of whipping to which members of the commons are accustomed. A three-line Conservative whip is so rare that what was, until this year, the most recent of them hangs proudly framed in Lord Denham's office. It covered the passage of the legislation for Britain's entry into the EEC, under the Heath government, and is dated for the week ending August 12, 1972.

This year Lord Denham was persuaded to issue two three-line whips, one to secure the passage of the rate-capping bill, the other for the second reading of the paving bill. On those occasions Lord Denham mustered 233 and 235 peers to his cause, and the government won. But to repeat the effort for the committee stage of the bill was felt to strain loyalty too far, with the risk of humiliation for the party leadership in the lords. So Lord Denham decided to rely on a two-line whip backed by a few friendly telephone calls. He mustered no more than 143 votes.



Jenkin had an accident

The government cannot afford similar reverses when the abolition legislation itself comes to the lords next year. Lord Denham's frame-maker could be in for a busy time.

Trade unions

Next man in

Like a bent and dwindling band of war veterans, the leaders of Britain's trade unions enjoy their glorious past as a distraction from their dismal present. Last weekend, during the umpteenth ceremony to mark the 150th anniversary of the deportation of the Tolpuddle martyrs, Mr Lionel Murray, the retiring general secretary of the Trades Union Congress (TUC), collapsed in the heat. The movement he will leave in September needs something more than propping up.

The first-ever election for a TUC general secretary will take place with the unions on the defensive. The miners' strike is more of an embarrassment to them than to anybody else. The TUC can neither control it nor actively support it.

TUC membership has fallen from over 12m in 1979 to barely 10m, and is more heavily concentrated in the public sector

Wrong hammer, wrong nut

Since 1979, Mrs Thatcher's successive governments have introduced five bills to solve the problem of local government spending. The latest, due shortly to reach the statute book, will be the third new bit of law to tackle it. The government's determination has been impressive. Officials have slaved for years and many Conservatives, mindful of local autonomy, have been alienated. But the stakes, we were told, were high. Not so. There is a true, and expensive, problem of London government finance, but not one elsewhere. Outside London the government's latest solution will save it about £30m, at most, next year.

Under the new bill, the environment secretary will select local authorities that spend above their grant-related expenditures (GREs—measures of what Whitehall thinks each authority should spend on services, given its particular circumstances) and whose spending he judges excessive, given the state of the economy. He will set each victim a spending limit for the next financial year, and will derive from that a maximum level at which it can fix its rates.

The scheme starts in the financial year 1985-86, so Mr Patrick Jenkin is selecting his victims now. Best guesses name 15 of them. This year, the government's target for the expenditure of these 15 was £2,288m. Of this, 10 London authorities, among them the Greater London Council and the Inner London Education Authority, account for 90%. The actual spending this year will be about £2,841m. Of the £553m overspend, all but £15m is attributable to London.

So how much will rate-capping the 15 authorities save? Assume that, but for the new bill, all 15 would spend 5% more in cash terms in 1985-86. Assume further

that, as reported, the government intends to hold them to this year's actual spending figures. The savings (or rather, expenditure forgone) would amount to £142m, of which only £12m would come from South Yorkshire, Portsmouth, Basildon, Leicester and Thamesdown—the five authorities outside London.

Of course, the government could cut deeper, and catch some of the other big urban authorities like Sheffield and Merseyside. But it is hard to see how it can save more than £30m outside London next year—equivalent to 0.13% of total "relevant" local authority expenditure in England and Wales.

Too pessimistic by far, say ministers: the very threat of capping has already moderated expenditure and rate rises, and there is more saving to come. Most observers in local government, however, think moderation has sprung from progressively stiffer rate support grant settlements, with severe penalties for overspenders. If that is right, then the



government is hitting the wrong target. The general problem of local government finance has been just about solved. What remains is a different problem, London.

Why is London different? Not because it is in the hands of the Marxist left: some of the hit-list councils patently are not (and one just off the list, Brent, is Conservative-controlled). But there may be two other reasons. The GREs may woefully underestimate the cost of providing local services in inner cities with declining populations. And/or both local government workers and their clients may expect higher standards of service in London than elsewhere. In neither case is rate-capping the solution. The government should either change the GRE formulas or stipulate basic standards for each local service above which a local authority must meet 100% of expenditure.

The environment department has traditionally preferred to tinker with local government's finances and structure than with its functions and standards. But Whitehall will soon have to change its tune. Selective rate-capping is not going to cut public expenditure significantly. So the government will be tempted to use the further powers given by the new bill to limit the expenditure not just of some but all local authorities.

But if those limits are set too high, all authorities will go right up to them, and expenditure will spiral. So there will be pressure, finally, to set low limits, and to embark on the real argument—which is over which services, to what standard, must be provided by the local public sector, which should be provided nationally, and which should be privatised.

That is just the exercise that this government should undertake. But will it do so, in the fourth year of a parliament?

than ever before. The new jobs in the private sector come in areas—microchips and services—where unions are seldom established, and where employees do not (or dare not) want them.

The steadily increasing pressures of the government's labour laws are making life more difficult for unions, even though they notably fail to check the mass picketing by the miners. Companies have rediscovered management; personnel managers and shop stewards play less of a part in factories now. The new laws will face most unions with one big challenge: the ballots on closed shops, due from November, which are likely to drive membership down even further.

The movement is notably lacking in attractive leaders or causes. Only Mr Arthur Scargill has any obvious leadership qualities, and he is leading in dangerous directions. Neither of the men for Mr Murray's job looks likely to alter this fact.

The front-runner, Mr Norman Willis, now Mr Murray's deputy, is 51, fat and sometimes funny, and might be called the candidate of the old-fashioned syndicalists. His opponent Mr David Lea, 47, an assistant general secretary, is able but dour; he might be called the candidate of the pragmatists. The pragmatists believe in the "new realism" championed by Mr Murray—which means talking to the Thatcher government, however much you dislike it, because it is there. The old-fashioned syndicalists want a Labour government which (they dream, but does Mr Kinnock?) will hand over control of the means of production to the unions. Neither cause, neither man, is exactly charismatic.

Can the union movement find a strong man outside Congress House? The biggest union, the transport and general workers', used to be a centre of power in the days of Mr Frank Cousins and Mr Jack Jones, but not under their pale

successor, Mr Moss Evans. The union has just chosen an old-fashioned syndicalist leader, Mr Ron Todd, in preference to a more cerebral pragmatist, Mr George Wright, to succeed Mr Evans. Mr Todd, an affable ex-Commando who does a good number on the saloon piano at conference knees-ups, makes up in passion what he sometimes lacks in judgment. He made his name as the union's chief troubleshooter with Ford. Colleagues note that he twice recently failed to get the members to follow him on important issues where he had quickly taken up a hard-line position in favour of some sort of stoppage—over the closure of the Dagenham foundry and over the Ford pay claim last autumn.

The syndicalists will be further strengthened if Mr Willis, who is backed by the transport workers, gets the TUC job. He was personal assistant to Mr Cousins, but has become bogged down in

Mirror, Mirror on the block



He likes what he sees

There are now few national newspapers left in which Mr Robert Maxwell has not shown some interest. Fifteen years ago, he tried to buy the News of the World. When that failed, he bid for the Sun and The Times. He discussed the ownership

of the Observer with Mr Tiny Rowland earlier this year. Two weeks ago, he bought a 10% stake in Fleet Holdings, which owns the Daily and Sunday Express and the Daily Star. And on Tuesday, he put in an £80m bid for Mirror Group Newspapers. "Some people call me a predator", he said. Reed promptly rebuffed him.

Mr Maxwell will bounce back. He is willing to pay up to £100m—and can afford to. Since he bought back Pergamon Press ten years ago, he has made it highly profitable. In 1980, he bought a stake in the debt-ridden British Printing and Communications Corporation in a dawn raid. BPCC, ruthlessly stripped of loss-makers, is now making lots of money too.

The Mirror group may not find it easy to rebuff Mr Maxwell's advances. As with Enterprise Oil, the Mirror is worth more to one buyer than to the shareholding public. And the curious passion which drives wealthy men to aspire to that most expensive British hobby, the ownership of a national newspaper, is a powerful force to reckon with.

backroom jobs at the TUC, because he and Mr Murray did not get on. His old-fashioned style could signal the interment of the TUC's attempt at realism. He is not really much to the left, but his lack of authority on the general council would make life easier for the hard left. At best, says one general secretary, he will be a poor man's Vic Feather—quite good on television, but with no real idea where the movement should be going.

The early nomination of Mr Willis has caused a late rally around Mr Lea, who is said by insiders to be the undeclared choice of Mr Murray himself. Mr Lea, a Cambridge graduate from the TUC economics department, has earned a tough reputation in Whitehall. "A Borgia without their finesse" is one description of him from a union general secretary. The general and municipal workers' union is the largest so far to have nominated him, but the engineers and the electricians can be expected to support him in the election at the TUC conference in September. Many unions will not come down for one man or the other until soundings have been taken among their members.

If Mr Willis wins, there is likely to be a weak hand on the reins of the old TUC carthorse. The general council will continue to be a battleground between the pragmatists and the syndicalists. The new shape of trade-unionism will depend on the way individual unions, such as the engineers and the electricians, adapt. They are swiftest to learn, because their

members are in competitive industries. They lead with no-strike deals, and single-union representation agreements. But the gap between unions like these and more militant and old-fashioned public-sector unions is likely to widen, as it has in other European countries. Of course, Mr Willis might be a surprising leader, growing in the struggle, as trade unionists used to say.

Toxic waste

Not so bonny

Two new-born babies in the area blind in one eye; a high incidence of cancer; more than 100 cows and calves dead or deformed. And a plant that specialises in burning toxic chemicals right next door. Grounds for alarm?

The public row that exploded this week over Re-Chem International's waste-burning plant at Bonnybridge, in central Scotland, was the culmination of nearly a year's campaign by a local farmer, Mr Andrew Graham. He is about to sue Re-Chem for over £1m because his cows have been failing to give milk, falling mysteriously ill and giving birth to dead or deformed calves.

What set the case suddenly alight was the discovery by a Canadian scientist, Dr Brock Chittam, of a kind of dioxin in a soil sample supplied by Mr Graham. Dioxin is the nastiest poison in the world.

It is also notorious for the way it kills with very inconsistent symptoms.

The Bonnybridge plant should not be producing dioxin. Its job is to incinerate toxic wastes, including polychlorinated biphenyls (PCBs), which used to be used as insulators in electrical circuits. If PCBs are burnt at too low a temperature, dioxin can be produced. Re-Chem insists that this has not been happening. The temperature of the company's furnace is continuously monitored by the local authority's environmental health department. The emissions from its plant are tested by the same local officials and two other bodies (the Industrial Pollution Inspectorate and the Forth River Purification Board). None of these has ever detected dioxin or any breach of standards. The area has many other industrial plants. Why not blame them?

Because the Re-Chem plant, according to a local resident, puts out a plume of whitish smoke with a terrible stink. And Re-Chem has twice compensated local people for damage to their potato and nursery plants, though the damage was attributed not to toxic chemicals but to simple salt in the smoke. Mr Graham and his supporters just do not believe that the plant has been as carefully monitored as is claimed. He says that the laboratories which test the plant's emissions are not equipped to detect low levels of dioxin. And Dr Chittam definitely found about one part per billion of chlorinated dioxin in the soil.

One trouble is that Mr Graham has been singularly unco-operative. Until last week he has not been allowing vets other than his own, or pollution experts, on to his land. Indeed, under a law designed for arrogant companies, Mr Graham had to be ordered to hand over Dr Chittam's report to the district council's environmental health officials.

The veterinary evidence is confused. On the one hand, repeated veterinary reports have cleared the plant. For example, one local farmer had some blind calves. The diagnosis is still secret but, according to a local vet, it puts the blame squarely on a culprit other than Re-Chem. Another farmer blamed Re-Chem for his cows going lame. His vet and a building expert convinced him that the cause was uneven floors in his cattle sheds. Only two farmers besides Mr Graham still blame Re-Chem for their problems.

When he first had problems, Mr Graham commissioned a study from Glasgow University veterinary school. It said that all his problems were due to the so-called "fat-cow syndrome" (dietary deficiency during lactation). Mr Graham furiously rejected the report. His claim to have "lost" 114 cows has been doubted. He

The social security shambles

Britain's social security system is expensive and inefficient. It pays out money to households which would not be poor if they did not get it. At the same time, it pays the genuinely needy lower social benefits than in almost any other western country. The insurance principle on which it is based has long since ceased to mean anything much except jobs for 10,000 civil servants who administer contribution records. And the haphazard jumble of taxes and benefits hits some people in quite unintended ways.

With four committees recently set up by the social services secretary, Mr Norman Fowler, to look at aspects of the system, reform may once again become a live political issue. But it will have to be cut-price reform: there are few votes (and still less ministerial promotion) in higher social spending. In an important new book* to be published next week, three researchers from the Institute for Fiscal Studies argue the case for using existing money more efficiently. By integrating the tax and benefit system and by concentrating help on the genuinely poor, it would be possible, they argue, to cut by almost half the numbers of the very poor—and still to leave enough money to reduce the basic rate of income tax from 30% to 25%.

The details of their case are spelled out in *The Economist* next week. This week, we concentrate on what has gone wrong with the present system.

At its core is the gradual but entirely predictable collapse of Sir William Beveridge's postwar plan of social insurance. This introduced the principle of compulsory insurance for everybody in work against those contingencies—like old age or unemployment—most likely to cause poverty.

Problems began from the start. There was the cost. The national insurance fund was not a true fund. There had been no build-up of contributions to cover future claims. From the beginning, the scheme was paying out pensions which had never been paid for by contributions. And demography was against Beveridge from the start. The proportion of pensioners (by far the largest single

group of beneficiaries) rose rapidly, from 12% of the population in 1941 to 21% in 1971. There was never the slightest possibility that contributions would cover more than a fraction of the current cost of benefits. By the late 1950s, national insurance contributions had become just another tax.

The scheme also suffered from its attempt to amalgamate the insurance principle with the relief of poverty. There was no way a benefit could both be based on an actuarially fair return on past contributions, and at the same time be set to meet the current subsistence needs of a family. The problem was compounded by the fact that concepts of poverty rose in line with national prosperity. So the means-tested safety net (first known as national assistance, later as supplementary benefit) that was provided for those who did not qualify for national insurance benefits had to be set at higher and higher rates; a large minority of national insurance claimants ended up receiving the means-tested benefit too. In 1982-83, 63% of the unemployed and 19% of pensioners had their incomes determined not by national insurance benefits, but by supplementary benefit.

The inevitable result of two overlapping schemes of poverty relief, embellished with newer inventions like family income supplement and child benefit, is inefficiency and anomaly:

● **Administrative expense.** The costs of administering benefits range from over 10p per £1 of benefit paid in supplementary benefit down to 1½p for the national insurance retirement pension. More and more people have become dependent on supplementary benefit and other expensive means-tested help, so the cost per unit of all benefits paid has barely declined.

● **Low take-up.** The complications of claiming are clearly one reason why many poor families do not get the full benefit for which they are eligible. The sheer multiplicity of benefits is another. This point is reinforced by the publication this week of research† by the Policy Studies Institute on the way supplementary benefit works. It reveals that confusion is rife not just among claimants, but among staff in local benefit offices, too. One third of all claimants have no idea how even their normal benefit have worked out; more than half have never heard of the single payments designed to meet special needs (to help with hire purchase instalments, for instance, or fares to visit relatives in hospital).

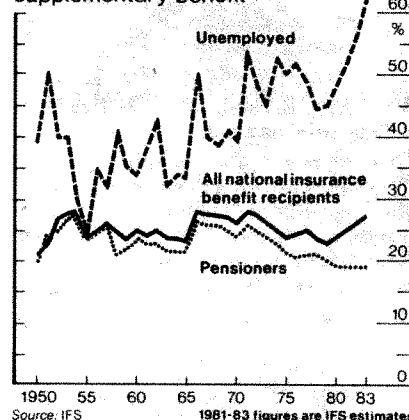
● **Excessive benefit payments.** On IFS calculations, one third of all benefit payments go to people who already have incomes above the supplementary benefit level. There are two reasons. First, some means-tested benefits are assessed on income over a short period, but

continue to be paid for much longer. So those on fluctuating incomes can claim while their income is low and continue to benefit even when it rises.

Secondly, because national insurance benefits and child benefit are not means-tested, much of the money goes to families whose incomes are already above the poverty line. IFS estimates that 42% of family income supplement and of rent and rate rebates, 46% of national insurance benefits, 26% of pensions and over 75% of child benefit go to those who do not strictly "need" the money.

The reasons for this are not silly ones.

% of benefit recipients also getting national assistance/supplementary benefit



The insurance principle implies that anybody who has paid contributions is entitled to share the rewards. Child benefit, which goes equally to all mothers with children, originated as an egalitarian replacement for child tax allowances which, were worth most to the best-paid. But the result is that welfare money is less well directed than it could be.

● **Disincentives to work.** Some families whose breadwinner is unemployed are better off than if he were to find work. However, the number of people in the "unemployment trap" probably sharply diminished by the 1982 decision to tax unemployment benefit and to end earnings-related supplements to it. Poor families in work find their family income supplement and housing benefit are withdrawn as income rises. The effect is that some are caught in the "poverty trap" where a pay rise may actually mean a fall in the money in their pocket. In effect, they suffer a marginal tax rate that can go above 100%. This is a basic dilemma for any welfare system. The more tightly targeted the welfare payments are the larger the disincentives to rise above the poverty line. For the IFS's solution, see next week.

*The Reform of Social Security. By A. W. Dilnot, J. A. Kay and C. N. Morris. Clarendon Press. £3.95 paperback, £10 hardback. †The Reform of Supplementary Benefit. By Richard Berthoud. Policy Studies Institute. £12.

The costly welfare state

	Est cost £m, 1983-84
Retirement pension	14,791
Unemployment benefit	1,528
Invalidity benefit	1,798
Supplementary benefit**	5,693
Child benefit	4,011
Housing benefit**	2,478
Family income supplement	125
Total contributory benefits	19,755
Total non-contributory benefits	13,997
Total benefit spending	33,752

**Housing benefit now covers rent and rates help previously covered by supplementary benefit.
Source: Public expenditure white paper, 1984.

admits that only five died; the rest were slaughtered when they fell ill.

Mr Graham is supported by a number of scientists. Dr Larry Robertson, at the University of Mainz in West Germany, is a toxicologist with direct experience of this sort of case. Ten years ago, in Michigan, 100,000 cattle died from feed contaminated with polybrominated biphenyls (PBBs), very similar to PCBs. It took a year to prove that the PBBs were the cause. During that time, local vets insisted, as at Bonnybridge, that there were perfectly mundane explanations for the rash of cattle disorders there—including bad husbandry. Dr Robertson says the Scottish vets' reports sound much the same: honest but, in view of the Chittam report, open to question.

The human evidence so far is unconvincing. Two babies have been born with a rare form of partial blindness. There have been 10 cases of leukaemia in three years, two more than the national average would predict. Mr Graham and his farm hands complain of an unusual stiffness in the joints. All this seems many miles from statistical significance.

The government has set up a public inquiry under Professor John Lenihan, of Glasgow University, to decide whether the babies and the leukaemia in the area are statistical flukes. And it has commissioned a detailed survey by the Scottish agricultural advisory colleges of local soil, vegetation and animal tissue.

Race relations

Black days

Those at the bottom of the pile get the thick end of the stick. The Policy Studies Institute's admirable new report* on the condition of Britain's non-white population shows that they entered the present slump lower on practically every scale than their pale compatriots, and have sunk lower during it.

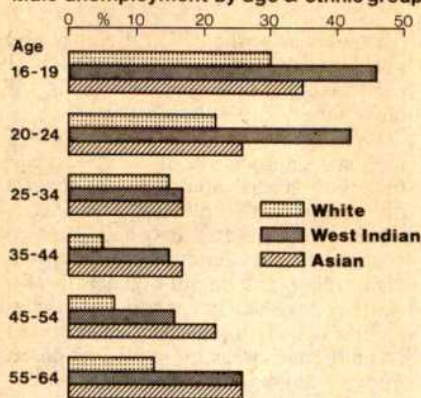
The left-hand chart above shows the catastrophic unemployment position of the young descendants of yesteryear's West Indian immigrants. Two previous studies by the PSI's ancestor, PEP, provide the yardsticks of decline. Britain's black and brown communities, as everybody knows, are bunched in districts where housing is worst and job opportunities fewest. But that does not explain all of their disadvantage. Direct racial discrimination plays a significant part, the PSI found and so does general British social inflexibility.

It is satisfying, but not very useful, to Black and White Britain. By Colin Brown. Heinemann Educational. Hardback £22.50, paperback £8.95.

The deprivation scale

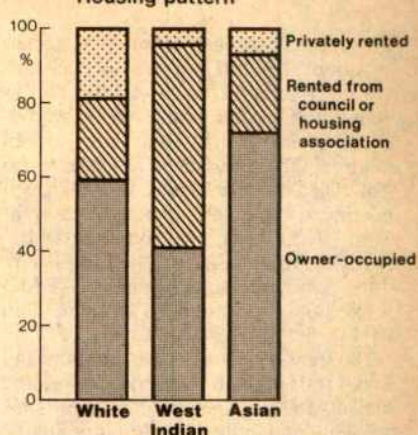
(England and Wales: 1982)

Male unemployment by age & ethnic group



Source: PSI

Housing pattern



denounce these things. The value of the PSI's work is in its detail. In particular it differentiates between the position of dispersed—and maybe, therefore relatively integrated—black and brown people, and the plight of the ghetto-dwelling majority. It also, most valuably, puts quantities on the differences between the ethnic and social groups within the black and brown communities.

It is easy, and encouraging, to choose to believe that Asians in Britain are doing fine because of all the splendid small businessmen in the high street. They are mostly Hindus, and often of East African origin. The PSI figures show that people in Britain of Bangladeshi origin have more trouble finding lower-paid jobs even than West Indians; and, in sharp contrast to the general Asian position on housing tenure, as shown in the second chart, only 30% of Bangladeshis own their own homes, while 57% live in publicly-provided housing.

The most alarming statistics concern the failure of some Asian women to adapt to British living conditions. Of all Bangladeshi women, 76% spoke English slightly or not at all; of Pakistani women, 70%. Half of all Asian women who arrived in Britain before 1962 still speak little or no English, and less than half of all Bangladeshi women said they would like more opportunities to learn it better. Employment and housing problems are directly associated with inadequate command of English: the educational difficulties of Moslem children, especially girls, from such homes are often extreme.

By contrast, the characteristic problem of the new generation born to West Indians is that of family instability. Since the last survey in this series, in 1974, the proportion of West Indian households with children where only one parent is present rose from 13% to 36%. Despite this, 74% of West Indian women were in the labour market (including the 11%

who registered as unemployed)—against 46% of white women and 39% of Asian women. It is the rising generation that will suffer from this near-desertion by parents.

Milk quotas

The shires rebel

Mr Michael Jopling, the agriculture minister, had a rough time when the commons debated the EEC milk quotas this week. The farmers are in far noisier revolt than he or his officials had anticipated. Mr Jopling's measures were loudly denounced by Mr Edward du Cann, the influential chairman of the Tory backbenchers' 1922 committee. Although the government won the vote, there were a number of Tory abstainers. And several Tory backbenchers warned the government that, unless there were more changes, they would not vote for the draft quota regulations, nearly 100 pages of which were published this week.

Many MPs suspect that while the ministry of agriculture imposes the Brussels rules on British farmers, the French—not to mince words, and the backbenchers did not—will cheat. Few MPs felt clear exactly what the regulations meant. Nor, when they tried to find out, did it appear that Mr Jopling or his junior minister, Mr John MacGregor, were any clearer.

Farmers still do not know whether they will be able to trade quotas among themselves, nor even whether a farmer who has a retail milk business can sell (more profitably) to his customers some of the milk for which he has a quota with the milk marketing board. They are not sure whether tenant farmers are entitled to apply for part of the £50m compensation which Mr Jopling is offering to producers who are prepared to go out of milk. Apparently—since the quota goes with

Diplomatic diversion

They sit next to each other in Victorian splendour in Whitehall, but the treasury and the foreign office have little else in common. The diplomats—well, the older ones—are urbane, but have lost an empire; the number-crunchers are pushy, self-contented and, in these cashed times, have gained one. And want more. This week, the diplomats' top man, Sir Antony Acland, had to turn up at the public accounts committee (PAC) of the house of commons to fight them off.

The treasury controls the numbers and pay of staff in the home civil service, and inspects the personnel complements for departmental branches. But not in the diplomatic service. The foreign secretary has the main responsibility for its pay and numbers. The treasury's powers are much less extensive—it does not inspect diplomatic staff. The foreign office does that for itself.

The establishment of the foreign office dropped by 10.7% in the 10 years after it was merged with the Commonwealth office in 1968. But for 1979-84 the diplomats projected manpower cuts of only 8.1%, against 14% for government de-

partments as a whole. The treasury was not pleased, and in 1982 it asked to participate in inspections of home-based diplomats.

Its request was turned down. As for their staffs abroad, the diplomats argued that their special knowledge of the requirements in "difficult" countries meant that the treasury had little to contribute. Sir Gordon Downey, the comptroller and auditor general, who watches government spending on parliament's behalf, disagreed. He reported recently that treasury participation in inspections—both at home and abroad—would increase the effectiveness of manpower controls, by introducing an element of independence and objectivity.

Why not?, the PAC asked Sir Antony. The foreign office is not against the idea in principle (diplomatese for "get lost") Sir Antony told the MPs. Indeed no. For example, there might be an interchange of foreign office and treasury inspectors, so that both sides could broaden their expertise, with the treasury men taking part in a sample of foreign office inspections—the sample being designated by, er, um, ah, the foreign office.

the holding, not the man—tenants will have to obtain their landlord's consent to give up milk. The landlord—for the same reason—is unlikely to agree, and nobody yet knows how such disagreements will be resolved. The government has not given any guidance on the taxation basis of money received in compensation.

Mr Jopling had an undeservedly easy time when he appeared later in the week before the commons select committee which shadows his department. Ignoring the fundamental question of how he proposed to ensure that the quota system does not freeze British milk production into a rigid and eventually inefficient pattern, the MPs rode off on their various hobby-horses. The angry dairy farmers—they are especially angry in Wales—will not be so kind. They want Mr Jopling's head—and, some would add, that of the chairman of the English and Welsh Milk Marketing Board, Sir Steve Roberts.

Miners' strike

Still not flying at the pickets

The National Coal Board chairman, Mr Ian MacGregor, was starting a new career as an advertising copywriter this week. He was drafting ads attacking the miners' union leaders—just as his industrial rela-

tions staff were fixing a new round of talks with the union. Despite the new negotiations, the rumbustious campaign by Mr MacGregor was not cancelled. The talks started on Thursday morning, without huge hope of progress.

Mr Scargill's real motives in sitting down again with Mr MacGregor are not clear. Government ministers and the coal board like to think that it is his reaction to pressure from miners who point out that their leader has nothing yet to show for 16 weeks of strikes. A more plausible reason is that Labour's Mr Stan Orme pleaded with him to do so, if only for public relations.

Publicly Mr Scargill is not shifting from his line that no pits should close. The union's general secretary, Mr Peter Heathfield, has been more flexible; he allows that there could be some agreed definition of exactly what constitutes an "exhausted" pit. Mr Heathfield is the man whom the coal board's industrial relations people chat up on the telephone, while publicly Mr MacGregor and government ministers try to isolate Mr Scargill from other miners' leaders. This is unlikely to have much effect on next Wednesday's special delegate conference of the union, where the main official business is to change the rules to bring in a disciplinary court to pursue an inquisition of working miners, and to review the strike. The delegate conference is stuffed with hardliners.

The Social Democratic leader, Dr David Owen, and the Institute of Directors' new boss, Sir John Hoskyns, have been calling for British Rail or British Steel to use the new labour laws. Some Conservatives are joining them. Llanwern and Ravenscraig steelworks are still making steel, thanks to very expensive road convoys now carrying ore and coal that normally go by rail. The government still seems reluctant to see anybody use its own laws to take out injunctions against more secondary picketing. This is rather odd: the steel unions said emphatically this week that they would not stop making steel despite their alleged solidarity with the miners, and official support from the transport unions failed to stop lorry drivers supplying the steelworks. Mr Scargill is so unpopular with other unions now that they would be unlikely to back the miners if the coal union and its leaders were hit by injunctions, or its assets were seized.

If British Steel sought an injunction, it would be easier for other members of the mineworkers' executive to point out to Mr Scargill that the game was up. And if the union had to turn in desperation to the Trades Union Congress which Mr Scargill so heartily despises, the TUC could acquire the leverage to settle the dispute that it has so far lacked.

Another tactic being considered by ministers is to go straight over the heads of the miners' union by sending redundancy cheques to those miners who have signalled their willingness to quit. The NCB bosses abhor this suggestion. It would need a change in the coal finance acts, which preclude such payments to miners not at work.



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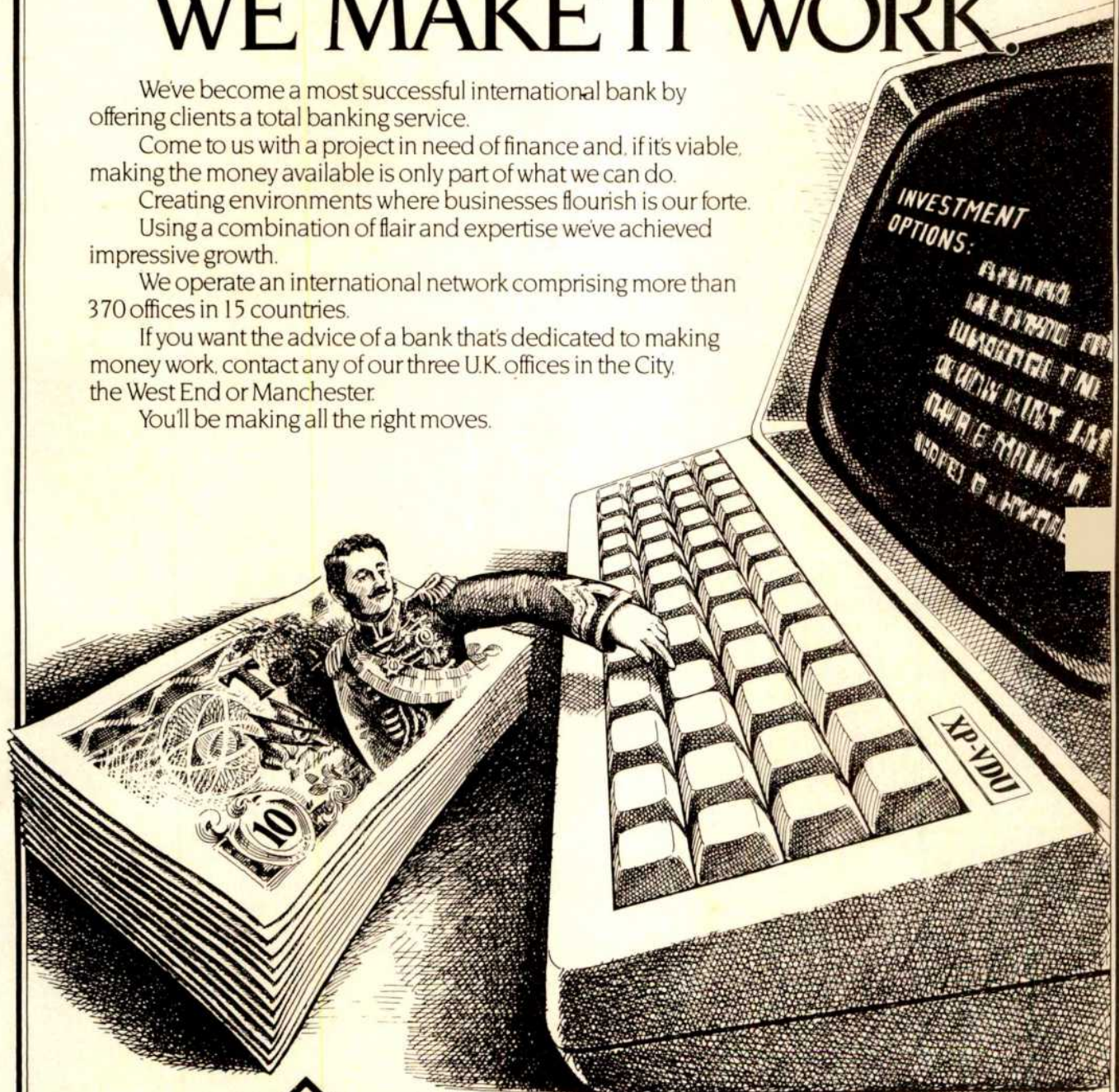
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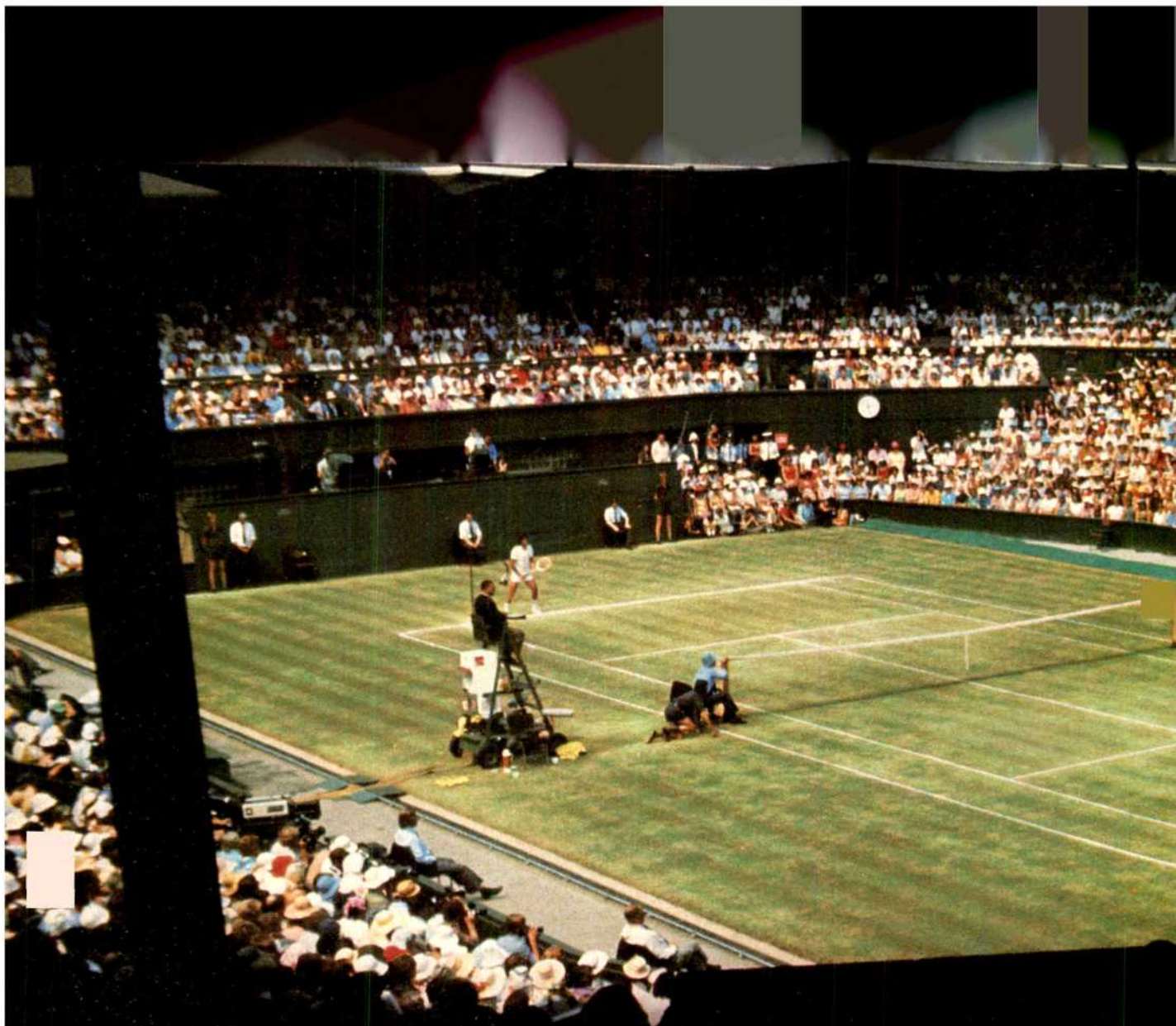


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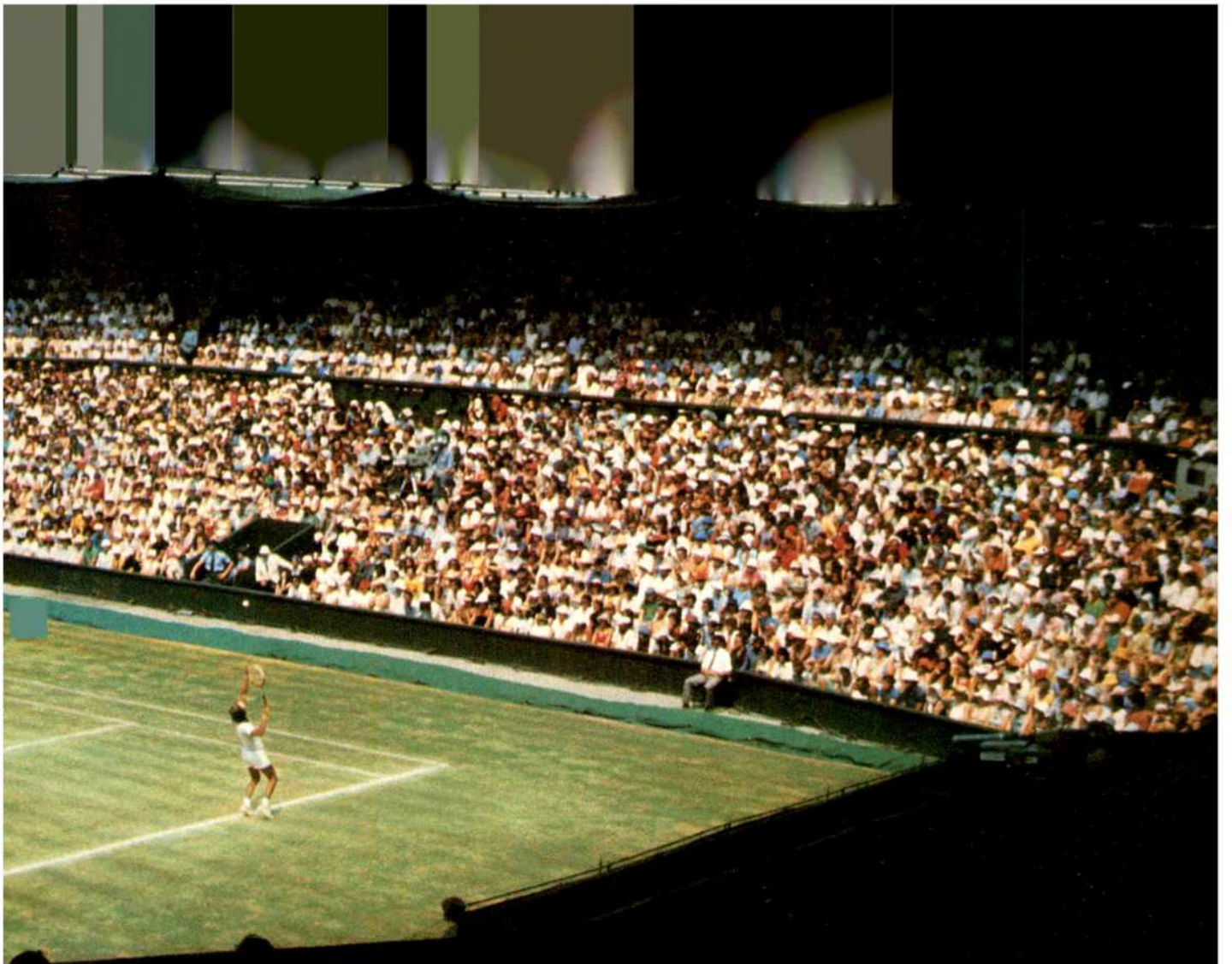
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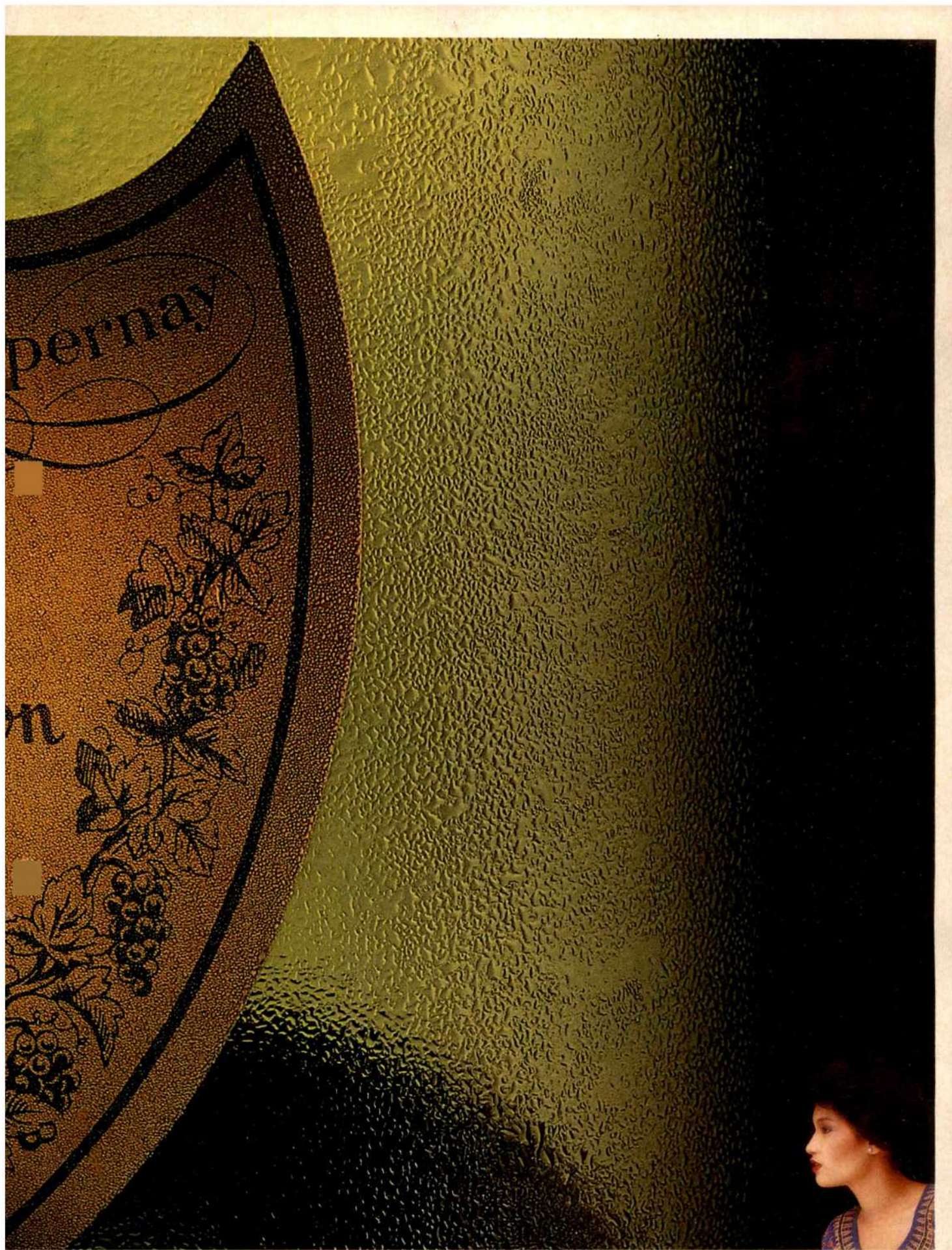
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Swaps. Our capital markets professionals have made us a world leader in interest rate and currency swaps with nearly \$3 billion in contracts written in 1983.

Commercial paper. We were the first money center bank to act as agent for commercial paper. Our customers now have more than \$3 billion outstanding. Only a handful of investment banks—and no commercial bank—exceeds this volume.

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commercial paper. Bankers Trust also introduced a new market rate, TENR, which has been used to price well over \$1 billion of tax-exempt floating-rate issues.

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today one of the five largest primary United States government securities dealers.

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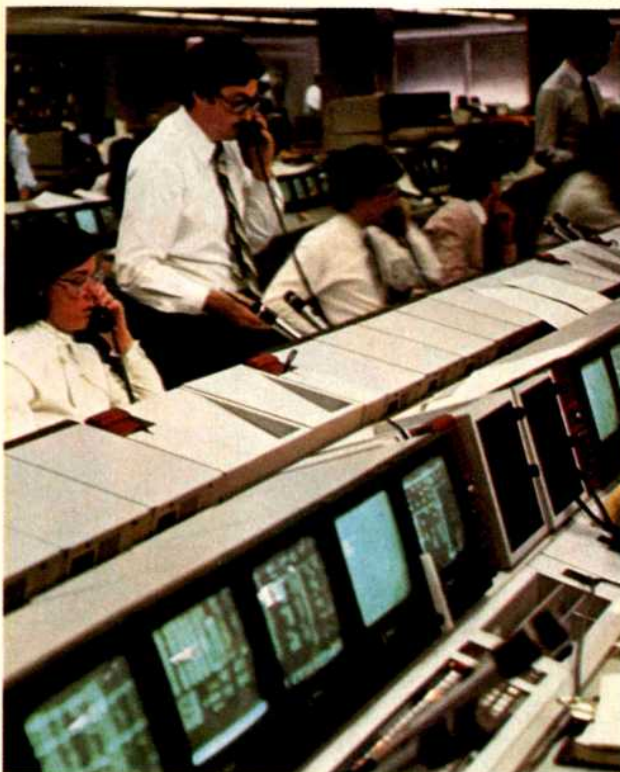
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BUSINESS THIS WEEK

Nigel Lawson, Britain's chancellor of the exchequer, said the government would allow **British building societies** to behave much more like banks. This means cheque cards, personal loans, maybe even sales of stocks and shares—and no interest-rate cartel.

America's **Continental Group** agreed a \$2.1 billion merger with a private mining and construction company to thwart a takeover attempt by James Goldsmith, a British investor.

Rio Tinto-Zinc bid for 29.9% of Britain's newly-privatised **Enterprise Oil**. The Norwich Union insurance company has a further 10%.

Under pressure from the Federal Deposit Insurance Corporation, **Continental Illinois** has sold at least \$5 billion of assets since March 31st.

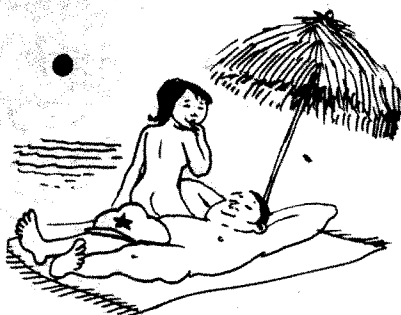
The IMF suspended further disbursements of a \$120m loan to **Guatemala**, because it is not doing enough to curb its budget deficit.

Bankers agreed to advance \$125m to help **Argentina** pay interest arrears. But they said Argentina must reach agreement with the IMF by August 15th.

Air Florida, which lost \$39m last year, suspended operations and filed for protection from its creditors under America's bankruptcy laws.

London banks plan an interbank market in foreign currency options.

Warner Communications is selling most of the assets of Atari, its loss-making home-computer and video-games subsidiary.



China and the **Club Mediterranée** signed a \$7m deal to build a holiday village in Shenzhen.

The \$1.2 billion merger of Florida's **Sun Banks** with **Trust Company of Georgia** is the biggest yet across state lines.

The French government may allow foreign companies to take minority stakes in **Framatome**, the nuclear-reactor firm half-owned by bankrupt Creusot-Loire.

Britain agreed that America's justice department should see confidential documents in the **Cayman Islands**, a British dependency. The department is seeking to trace money from drug sales.

The International Finance Corporation, the private-sector arm of the World Bank, is earmarking up to \$500m for **oil and gas exploration** in developing countries over the next five years.

Crocker National, the loss-making subsidiary of Britain's Midland Bank, is selling its new headquarters in San Francisco for \$425m.

The government told **Canadian banks** to increase their provisions for non-performing loans to less developed countries.

The EEC commission fined **BL** £208,000 (\$270,000) for charging traders a fee on cars they re-import from the continent.

The (now settled) **engineering strike** was blamed for a 2.5% drop in West Germany's industrial output in April and May, compared with the two previous months. The dispute in the print industry is still unresolved.

A bid of "not less than £80m" for Mirror Group Newspapers by Robert Maxwell's **Pergamon Press** was rejected by Reed International, which is planning a public float of Mirror Group's shares.

BP drilled its fifth dry hole in the South China Sea.

Economic and financial indicators are on pages 97-98.

Corporate scorecard

Company	Period	Net profit \$m*	% change on comp period**	Sales \$m*	% change on comp period**	Comment
Casio Computer	Y Mar 20	39	+26	880	+11	Export sales helped boost profits for Japan's and the world's biggest calculator maker.
CSX	H Jun 30	260	+164	4,010	+72	The American transport group benefited from economic recovery and the acquisition of Texas Gas Resources.
GEC	Y Mar 31	1,000†	nil	8,400	+1	Britain's largest electronics and electrical manufacturer showed its smallest pre-tax profits increase for 17 years.
Hammermill Paper	H Jun 17	32	+246	880	+23	Strong demand allowed the American papermaker to lift paper prices and increase sales. A strike will reduce third-quarter profits.
Marriott	H Jun 15	60	+25	1,570	+19	Better marketing by this American hotel, restaurant and theme-park group pushed up profits.
Mazda	H Apr 30	50	+9	3,010	+7	The Japanese carmaker sold more swanky, higher-profit models than in previous periods.
Vantona Viyella	H May 27	10†	+101	250	+46	Better margins, especially on woven fabrics, were responsible for a sparkling performance from the British textiles group.

Y = Year ended. H = Half-year ended. * Converted at average exchange rates. ** Based on local currency figures. †Pre-tax profit.

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Customers' deposits	71 349.2	+ 9.3%
Due to banks	23 122.8	+ 4.6%
Capital and reserves	5 258.7	+ 4.2%
Total advances to customers	44 312.4	+ 12.0%
Deposits with and loans to banks	27 504.3	- 13.5%
Cash flow	851.6	+ 16.5%
Net profit	429.0	+ 16.1%

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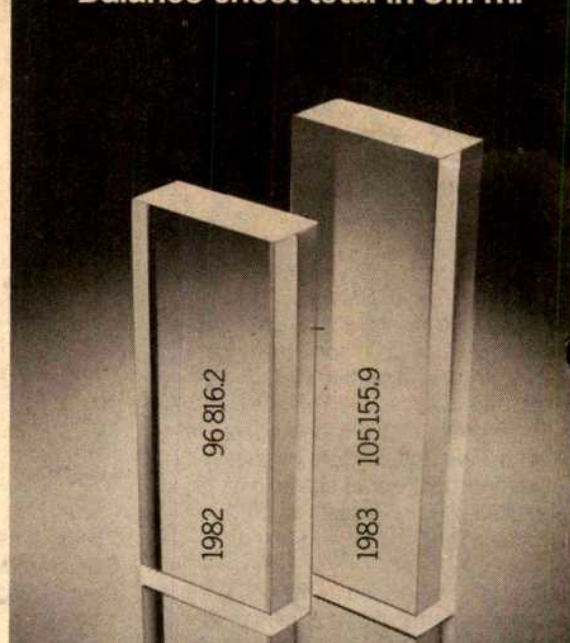
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WORLD BUSINESS

You can tell a company by the people it keeps

Stress-related illnesses are reckoned to cost America \$66 billion a year, equivalent to 2% of the country's gnp. At least half the cost falls on business. Britain's bill, shared between companies and the welfare services, is put at some \$9 billion a year, also 2% of gnp. Up to 10 times more workdays are lost to industry through stress than strikes. Yet it is strikes that win the headlines. Few firms realise that uncherished employees are as costly as poorly maintained machines: they also break down.

Coronary heart disease does most damage, accounting for about half the cost of stress-related illness. Other bosses, managers or workers (stress knows no rank or sex) risk suffering a mental breakdown. Stress also helps cause suicides, divorces, alcoholism, drug dependence and old fashioned ulcers. Bad diet, smoking and lack of exercise do much to worsen the odds—and lives.

Employees usually try to hide what stress is doing to them, but the signs of stress are there for those companies that look for them: palpitations, irritability, tiredness, apathy, indecision, anxiety, smoking and overeating and drinking. Much of this is blindingly obvious; but companies are paying more attention now...at academics are making a career of it.

Some firms are beginning to realise that it is profitable to be kind. Canada Life and North American Life, two Canadian insurance companies, put 1,125 employees through an intensive fitness course at the companies' expense. Absenteeism declined by 22% among those who participated in the course (worth \$200,000 a year across the two companies' staffs as a whole); productivity improved, and staff relations got better. PepsiCo, the soft-drinks maker, now runs similar courses at its New York headquarters.

Professor Cary Cooper of the University of Manchester's Institute of Science and Technology, an American psychologist whose case studies* on stress include those on insurance companies, says few British companies bother to keep a proper check on their employees' health or to

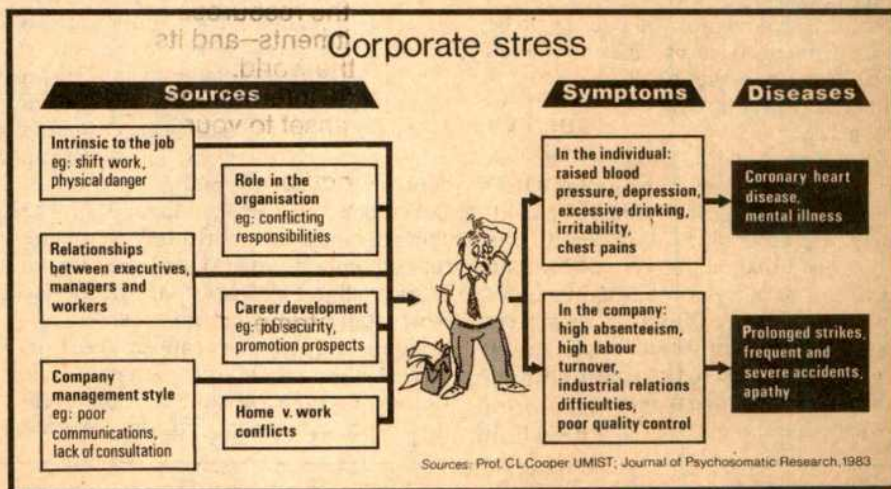
run fitness programmes. In particular, most top executives are not interested. Unlike their middle managers, they do not see the daily stresses of office or factory life building up.

This may be one reason why Britain is second among industrial nations in the incidence of death from heart disease. While these heart deaths among 40- to 69-year-old men and women are rising in Britain, those in other high-incidence countries such as America and Finland are falling. Diet is often reckoned to be a bigger risk-factor than stress, but stress takes its toll. Psychologists and medics argue about which comes first.

University, sees a link† between "excellence" and early death from heart disease. The "excellent" managers, are highly competitive, aggressive, impatient, restless, bad at delegating and lack outside interests—many of the qualities associated with business success.

A University of Michigan study‡ of employees in 23 occupations found that for white-collar workers the main sources of stress leading to ill-health were a difficult job with a high and concentrated workload and responsibility for other people. But the study also discovered that fear of redundancy, under-use of their skills and a dull job all induced stress in blue-collar workers.

Mr Geert Hofstede, a Dutch psychologist now at the Institute for Research on Intercultural Co-operation at Arnhem in Holland, looked at IBM's European employees. He found that among the managers stress was counterbalanced by high job satisfaction. But a mix of high stress



Japanese, West German, Dutch and Scandinavian bosses have, at least in recent years, been more paternalistic than most British ones, in part because of collaborative rather than combative management-union relations. Courts in America are giving companies cause to take more interest in the health of their staff by awarding big damages to employees making disability claims. The courts have upheld the argument that companies have caused traumas in their employees through a gradual build-up of stress.

For outstanding managers, success can kill. Mr Siegfried Streufert, professor of behavioural science at Pennsylvania State

and low job satisfaction was prevalent among clerks, salesmen and unskilled workers—among whom ulcers were commonplace. So IBM tried to give these people more status and to make their jobs less boring.

Some companies are learning the hard way. The Trustee Savings Bank in Britain employed a doctor to deal with employee stress after finding that, in one year when

*"Coping with stress at work." J. Marshall and C. Cooper. Gower Press.

†"The dilemma of excellence." S. Streufert. International Management, April, 1984.

‡Institute of Social Research, University of Michigan. R. D. Caplan et al, 1975.

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it was being reorganised, 20 out of 24 early retirements were of middle managers suffering from stress-linked ill-health. The doctors found two peak danger periods: 28- to 30-year-olds worrying whether they would get on the management ladders; 48- to 50-year-olds striving for a place on the top rung.

ICI, the British chemical group, has no counselling services, but it trains managers to look for nasty symptoms in themselves and those they manage. BASF, the West German chemical company, sends its executives every year on a fortnight's health programme. They are taught there how to relax and eat healthily, and study transcendental meditation.

What can firms do to reduce stress and prevent the illness it can cause?

- Stop employees working unnecessarily long hours—40 hours a week is usually more than enough—and insist they take holidays.

- Employ qualified medical staff and monitor employees' health and fitness.

- Give employees a break. Sabbaticals or secondments to other branches of the company, other companies or government departments help employees to improve their skills, learn new ones and be less obsessive about their own jobs.

- And be more considerate when moving staff. British firms tend to be less generous than their American, Japanese and continental European counterparts with helping transferred employees to buy and sell houses and get their children into school.

Warner Communications

Game over

NEW YORK

Warner Communications is retreating to the entertainment businesses it knows best. On July 2nd, it announced the sale of its Atari home-computer and video-games subsidiary after losses of almost \$1 billion in the past 18 months. Movies, produced mostly by the Warner Brothers subsidiary, and records will once again be Warner's main concerns. They accounted for 62% of group sales of \$726m and most of operating profits in the three months to March 31st.

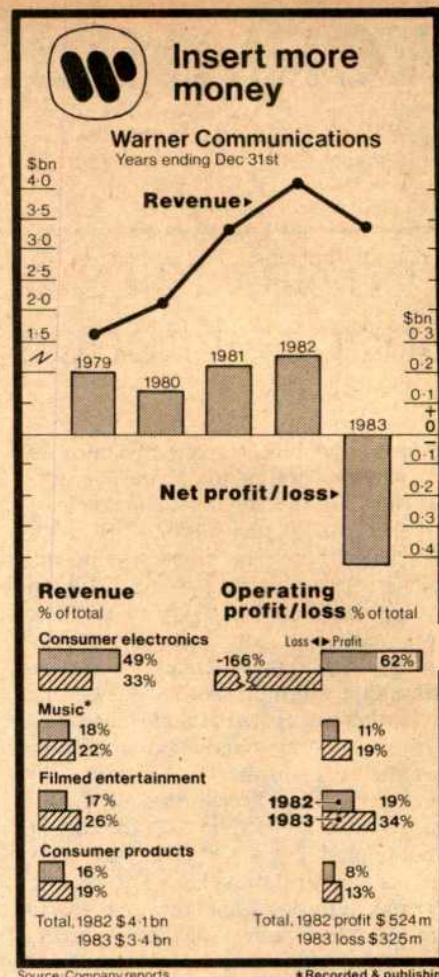
Atari was sold to Mr Jack Tramiel, formerly president of Commodore International, its strongest rival in home computers. He took over Atari, which now has barely 1,000 employees, down from 7,000 a year ago, for \$240m-worth of paper but no cash. Despite Warner's big losses at Atari, Warner still seems loth to let go. It retains the right to buy back 32% of Atari if Mr Tramiel makes a go of it.

Warner became smaller and weaker as

Atari's losses piled up. In 1982, Atari brought in half the group's revenue and over 60% of operating profit. By the first quarter of this year, Atari's share of group sales was down to 20%.

Group sales in 1984 are certain to be lower even than last year's \$3.4 billion (see chart). Shareholders' equity has also shrunk, from \$1.4 billion at the end of 1982 to \$960m a year later and \$923m on March 31, 1984. Warner gained \$66.6m (after tax) from the sale of its cosmetics subsidiary early this year, but long-term debt rose from \$616m at the end of December to \$756m on March 31st. The company may have borrowed even more to buy out in late March the 7% of Warner that Mr Rupert Murdoch, the newspaper tycoon, had amassed.

Now that Warner is shot of Atari, its biggest loser is Warner Amex Cable Communications, a cable-TV joint venture with American Express. Warner



Amex, helped by a strong cash flow from Atari when it was still profitable, bid for too many costly cable franchises and lost \$99m in 1983. It will lose a packet again this year, though Warner Amex sold one franchise, in Pittsburgh, for \$93m. A separate joint venture for selling programmes, which included the rock-video channel MTV, is doing well.

Warner's record business is in for an overhaul. In an almost stagnant market, it trails far behind its main rival, CBS—

Spaced out

NEW YORK

Is CBS, the American broadcasting and entertainments group, risk-averse after spending \$30m-50m—and a year—to get out of cable television? It has backed away from the \$700m investment that Comsat, its partner in direct broadcasting by satellite (dbs), reckoned was needed to provide a nationwide satellite service for homes that cannot be reached by cable. CBS says it now has no immediate plans to start a dbs service.

Though only a quarter of American homes cannot be wired for cable-TV, that is still some 20m households, a

tempting market for broadcasters and advertisers alike if it can be captured. So far it has proved elusive. United Satellite Communications (USCI) has just 11,000 subscribers for its low-powered dbs system that reaches half a dozen eastern states and covers such big cities without cable-TV as Washington and Philadelphia. Potential customers have been put off by the high cost of installing a receiver dish (\$395) and by the service offering just five channels. USCI still plans to have coast-to-coast coverage by 1986.

One of the early attractions of dbs was

that it provided high-quality pictures. CBS thought that would be a selling point, even in areas with cable-TV. But better cable (through using five or six bandwidths for each channel) and digital transmission have eroded that advantage. Moreover, CBS does not now seem to need to regain the audience the narrowcasters pinched from broadcasters such as itself. It has increased its rates as the audience for its network television has declined—and got away with it. A 30-second spot in prime time on network television costs an advertiser \$7.50 for every 1,000 viewers, 43% more than in 1980. Cable-TV stations run into resistance from advertisers when they try to charge more than \$5 for a similar spot.

A yen for a cheaper dollar

The dollar is still at it, rising against every currency that matters—and making even the yen look puny. Or is the puniness justified?

This week financial markets anticipated another rise in American interest rates by pushing the dollar's trade-weighted value to a new high. Its climb over recent weeks has more than wiped out the depreciation of the early part the year, which many had hoped was the start of a long-predicted downward trend (see left-hand chart).

All the leading currencies have lost ground in dollar terms. Over the month to July 4th, the yen fell 4.4%, the D-mark 5.6%, the French franc 5.4%. Sterling was in even worse shape, falling to a record low of \$1.33, and, pummelled by the economic uncertainties surrounding Britain's coal strike, slipping against European currencies too.

The dollar's latest rise may not be over yet. The "flash" (and always wrong) estimate of American gdp put growth in the second quarter at 5.7% (at an annual rate). Two of the three target measures of money supply are at or above their upper limits, reinforcing fears of higher inflation. That may be enough to raise interest rates and the dollar, even if the Federal Reserve's open market committee decides at its next meeting on July 10th-11th not to tug the monetary reins.

Damage to the competitiveness of American manufacturing industry will continue to grow, along with the threat of new rounds of trade protection. And the European's policy dilemma will get trickier—do nothing, and risk the inflationary boost of a cheaper currency, or raise interest rates to keep inflation low, and stifle recovery.

Out of step?

All now agree that the dollar is overvalued, and all (bar congress and the American treasury) agree on the deficit-cutting steps needed to put things right. A more difficult question is whether the dollar is more seriously out of kilter with some currencies than with others. Many economists argue, for example, that the yen is undervalued by more than can be

explained by the strength of the dollar, and that the exchange-rate system cannot find its equilibrium unless Japan's government changes its policies.

In 1983, Japan's current-account surplus was \$21 billion; forecasters at the OECD expect it to grow to about \$31 billion this year and about \$36 billion in 1985. These figures are much larger than for any other industrial country. Furthermore, only \$3 billion of the \$13 billion improvement in Japan's visible trade surplus between 1982 and 1983 was due to an improving surplus in trade with America—though America's overall visible trade deficit deteriorated by \$25 billion over the period. Together these figures seem to suggest that the value of the yen is a problem in its own right.

Not necessarily, argues a recent study* by the New York Federal Reserve. First, much of the increase in Japan's trade surplus outside America was really due to the strength of the dollar against the yen, rather than to the weakness of the yen against non-American currencies: the dollar's strength made Japanese exports more competitive than American goods in third markets.

Second, the massive increase in Japan's current-account surplus between 1981 and 1983 was the result not so much of a surge in super-competitive exports as of a \$17 billion drop in imports. That, in turn, was not because of a cheap yen, but because of cheaper oil and cyclical weakness in Japan's domestic demand.

Three other factors are said to cast doubt on the idea that the yen is fundamentally undervalued:

● **Real exchange rates.** The middle chart shows that the trade-weighted value of the yen, after allowing for inflation, is now at around its average level during 1974-80. But the real trade-weighted value of the dollar is almost 30% higher than it was before. Perhaps, then, the yen was already fundamentally undervalued in 1974-80? If so, Japan should have had large and growing current-

account surpluses during those years; in fact there were some years of surplus and some of deficit, with no clear trend to point to an underlying imbalance.

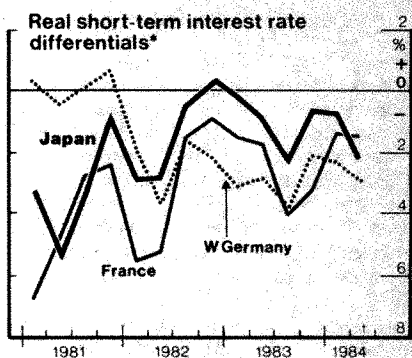
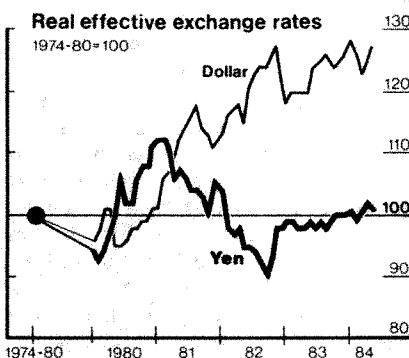
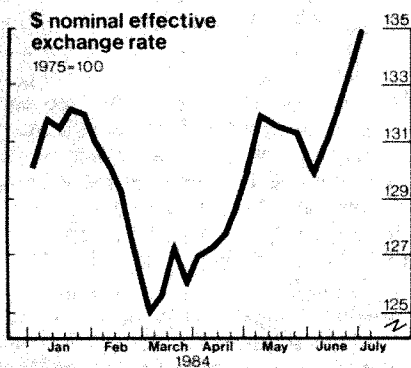
Maybe. But the Fed study underplays the cyclical factors that can push one country's trade balance into deficit when it is booming, irrespective of the value of its real exchange rate.

● **Manufacturing competitiveness.** Real exchange rates are a measure of competitiveness for the whole economy; a better measure of competitiveness in traded goods is given by relative labour costs in manufacturing. The picture is the same. American manufacturing competitiveness was 27.5% lower last year than in 1974-80. But while Japan's competitiveness improved by 2.5%, West Germany's was 9.7% better, and France's 13.2% better. So fluctuating currencies have not given a bigger competitive boost to Japanese exporters than to Europeans.

● **Real interest rates.** American interest rates, allowing for inflation, were higher than in most other industrial countries last year. But have Japanese real interest rates been specially low, keeping the yen unduly cheap? The right-hand chart shows that real rates have typically been lower in both France and West Germany; real interest-rate differentials suggest, if anything, that the yen may be overvalued, not undervalued, in relation to the D-mark and the French franc.

What would happen if Japan dismantled its complex apparatus of capital-market controls and rigged interest rates? By restricting the range of financial instruments open to foreign depositors, the Japanese government restricts capital inflows. That, by itself, keeps the yen cheap. The rules discourage capital outflows too, though on a smaller scale; if it was legal to use yen to swap them for dollars and lend them, eg, to an American company, the yen's value would be lower still.

*"Currency Misalignments. The Case of the Dollar and the Yen." Mr Shafiqul Islam, Federal Reserve Bank of New York.



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whose record division had sales of \$1.2 billion last year, against \$766m at Warner. To catch up, Warner wants to merge with Polygram, owned by Philips and Siemens, but the deal has run into a thicket of antitrust complications.

Films have done best for Warner for the past 18 months. Operating profits on them of \$40m in the first quarter exceeded Atari's \$35m loss. Recent box-office hits include "Police Academy" (which has brought in revenues of nearly \$80m in the past four months) and Mr Steven Spielberg's "Gremlins" (\$70m within four weeks).

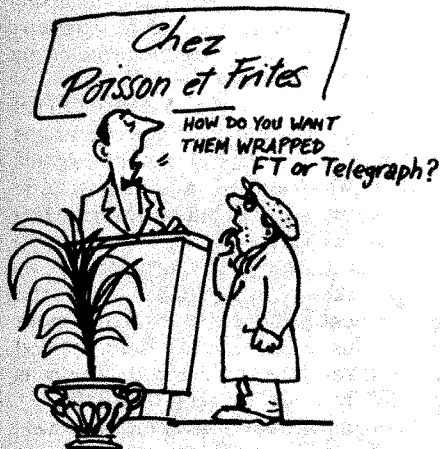
Atari will leave a scar on Warner long after the company returns, chastened, to profitability. By depressing Warner's share price, the losses of Atari exposed the company to predators and forced Warner into an alliance with a broadcasting company called Chris-Craft in order to fend off Mr Murdoch. Chris-Craft swapped 42.5% of its shares for a 19% stake in Warner, since raised to at least 26%. That leaves Mr Stephen Ross, Warner's boss, with a looser grip over a smaller and weaker company.

Fast food

Vatburger to go

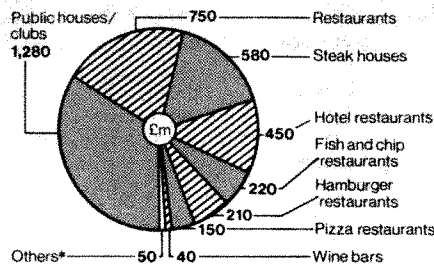
Britain's fast-food operators are struggling up-market to stay alive. The introduction in May of a 15% value added tax (Vat) on hot take-away food looks like putting out of business the dowdier traditional fish-and-chip shops—once as much a part of any British parade of shops as a Chinese take-away is now. Chippies' sales have fallen by as much as 40%. By contrast, the big hamburger chains are thriving. Though their sales dipped as the price of hot take-away food went up, most now reckon that their business will be expanding healthily again by the end of the summer.

McDonald's, the franchise that in



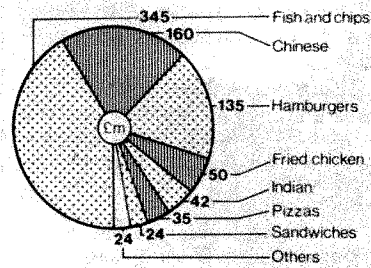
Chips in the night

Spending on restaurant meals in Britain
1982 total: £3,730m



Source: Mintel

British takeaway food market
1981 total: £815m



*Including snack bars

America has more than half a million cows slaughtered each year to fill its buns, is the hamburger market leader in Britain. It hopes to have 166 British outlets by the end of this year, 42 more than in 1983. Panting behind is Wimpy, the United Biscuits-owned chain. In order to compete with McDonald's, it has switched from traditional waiter-service to high-tech counter-service in the newest 60 of its 420 outlets.

In 1983, McDonald's spent more than £4m on advertising, most of it on television. Wimpy spent £800,000 last year; and will probably spend more than £1m in 1984. Between them, the two companies take between a quarter and a third of the estimated £1.8 billion that is spent each year on fast food in Britain, much of it by parents to feed their children.

Smaller chains, such as the American-owned Wendy's with 13 outlets, aim to attract older, wealthier Britons. They are eating more hamburgers now, too. Wendy's plans to start advertising on British television later this year. Some suggest that its aim is to have one outlet for every two of McDonald's in the wealthy south-east of England. It will have its work cut out.

The Huckleberry's subsidiary of the hotel group Grand Metropolitan hopes to boost its sales by changing its advertising agencies. It seems unlikely to meet its target of doubling outlets from 15 to 30 this year.

Burger King is struggling to keep pace. It recently expanded its 12-outlet chain by opening a new restaurant on an upper floor of a revamped store in Liverpool that was taken over by Burton's, the tailor-cum-fashion chain. Sceptics doubt whether Burger King's search for such high-street sites will pay off. Shoppers are not usually accompanied by their children and are not all that keen on hamburgers, as Marks & Spencer, Woolworth and other retailers have found to their cost in the past.

Among those who have suffered most from the imposition of a 15% Vat on hot

take-away food is Kentucky Fried Chicken, the first of the American invaders. It sells all its food over the counter to take-away customers. Its managing-director in Britain, Mr John Barnes, has led the industry campaign to get the British chancellor, Mr Nigel Lawson, to exempt hot food from Vat—so far without success. Only about a third of the sales of the big hamburger chains are taken out of the shop, so they have not done much complaining. Nor have such chains as Pizzaland (owned by United Biscuits with 100 outlets), Pizza Hut (30) and the pseudo-Italian Pizza Express (28).

Pizza chains account for about 10% of the fast food market in Britain. A new challenger is Spud-U-Like, which sells baked potatoes with savoury fillings. Thanks to the relatively low cost of setting up a franchised outlet (£60,000 against £350,000 for a Wimpy), Spud-U-Like now has around 40 outlets, most of them in the south-east of England, though it started in Scotland. It too may be forced up-market if competition within the industry continues to hot up.

Textiles

Sweet MFA

GENEVA

The General Agreement on Tariffs and Trade (GATT)—the agency that referees world trade—is about to produce a damning condemnation of the myriad rules and regulations that restrict textile imports into rich countries. When the GATT council meets in Geneva next week, it will get a study from its in-house economists that says that the labyrinthine multifibre arrangement (MFA) has made clothes dearer in rich countries without achieving their aim of protecting the jobs of textile workers. It goes as far as is politically possible towards saying that the MFA should be scrapped.

In the decade after the first MFA was signed in 1973, the output of developed

countries' textile industries dropped by 1.5% a year. It is now rising. Employment fell 4.5% over the same period, but is now falling further. Increases in productivity, achieved mostly by installing labour-saving machinery in the mills, account for the difference.

This has helped rich countries maintain their dominance of the world rag trade. The top three textile exporters in 1982 (the latest year for which figures are available) were not the likes of Hongkong or South Korea, but West Germany (\$5.5 billion), Japan (\$5.1 billion) and Italy (\$4.4 billion). Their exports go mainly to other industrial countries. The MFA, by keeping out cheap imports from the third world, has given textile and clothing makers in some industrial countries the opportunity to increase their exports to other industrial countries. This was not its original aim.

The textiles and clothing industry is unique in being exempted from Gatt rules. The notion of bringing it into line is hardly new. At its last ministerial meeting, in 1982, Gatt floated the idea of abolishing the MFA (oddly, Gatt administers this derogation from its rules). Each new arrangement (there have been three since 1973) has pretended to be a merely temporary device. Some pretence.

Developing countries have long criticised the MFA as protectionism by another name. They will lambast it again at an informal meeting in Karachi later this month. But until now, rich countries—particularly in Europe—have been able to keep the arrangement going by threatening to impose even more restrictive bilateral trade deals if it breaks down.

The current MFA runs out in mid-1986 so rich countries are in no hurry to talk about changes. The Gatt criticisms, how-

Sickly sugar

Is there to be no end to the misery of sugar producers? On June 29th, the latest—and surely last—attempt to get a new international sugar agreement to support the market next year collapsed. Prices touched 43 cents a pound in November, 1980. Today, sugar fetches less than five cents a pound.

At this level, nobody can make money out of sugar. It is in chronic over-supply. About 37m tonnes of sugar—equivalent to 40% of annual consumption—is held in stockpiles. During the past three seasons, the cumulative surplus has totalled 15m tonnes; this year's crop will probably add another 1.6m tonnes to the pile.

Producers are now caught in a spiral of rising output and falling prices. Instead

of tightening export controls under the new agreement, they each tried to grab as big a share of the market as they could. Understandable in the case of Fiji or Cuba, which depend on sugar for most of their export earnings. But the EEC, which is not a member of the current agreement, wanted to be able to export over 1m tonnes more than other exporters thought justified as its price for joining a new agreement.

The chances are that, when the existing agreement expires on December 31st, exporters will be practically giving the stuff away. Might this persuade some of them—notably the EEC—that increasing output regardless of market demand is idiotic?

ever, may succeed in grabbing their attention because the textile industry is itself changing. Thanks to the introduction of new technology, the best-run manufacturers in Europe, America and Japan can now compete on nearly equal terms with firms in cheap-labour countries. To that extent, the MFA is now unnecessary.

As the Gatt's study notes, clothing makers in these industrial countries are locked into domestic markets where, because population is stable, increases in demand can come only from the same number of (already well-clothed) people buying more clothes. Contrast that with poor countries where, each year, 70m people are born and will need to be clothed—and where many people still have only a couple of changes of clothing. Textile companies are starting to see that, if they want to get into a growing market, free trade will be in their interest.

Schneider

Profiting from its loss

PARIS

Its labyrinth of holding companies and subsidiaries makes Schneider the mystery group of French business—and, for France's ruling left-wing political parties, also a symbol of capitalist manipulation. Now the empire founded by Mr Eugène Schneider in 1836 has lost its biggest dominion with the bankruptcy of France's largest heavy-engineering group, Creusot-Loire. The loss is Schneider's gain.

Creusot-Loire has known little but trouble since it was founded in 1970, following the merger of the old Schneider metal company at Le Creusot and another steel and heavy-engineering group, Compagnie des Ateliers et Forges de la Loire. The merger did not produce the rationalisation which the firm badly needed. Creusot-Loire kept plugging away at too many loss-making activities. It was burdened by steel losses, for which the French government refused to compensate it. It made a bad investment in Phoenix Steel in America.

Creusot-Loire's losses soared to FF1.8 billion (\$236m) last year. The one bright spot was Framatome, the nuclear-plant builder, which turned in regular profits. But, as part of a FF6 billion government-backed rescue plan last year, Creusot-Loire had to sell one third of its Framatome stake to raise cash. When the government refused to put up any more money this spring, Creusot-Loire applied to be taken into receivership. This was granted by a Paris court on June 28th.

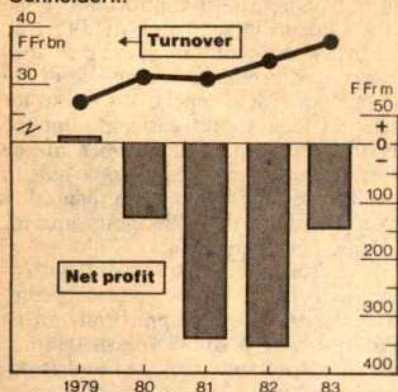
Though the French government is having difficulty finding another company to



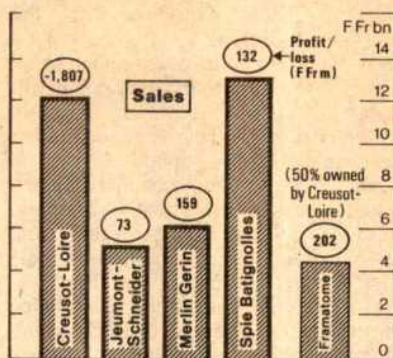
The MFA does as few favours in Hongkong... as in Florence

Eugene's empire

Schneider...



and main subsidiaries



Source: Company reports

run Creusot-Loire while its affairs are wound up, there should be no shortage of buyers for some of its parts. The state-owned power company, Compagnie Générale d'Electricité (CGE), is a likely candidate for part of Creusot-Loire's remaining 50% stake in Framatome, as is France's main nuclear-equipment supplier, the state-owned Alsthom-Atlantique. Renault should be interested in the armoured-vehicle division. Neyrpic, the turbine maker in which Creusot-Loire has a 65% share, looks healthy.

Mr Didier Pineau-Valencienne, chairman of both Schneider and Creusot-Loire, and the industry minister, Mr Laurent Fabius, have been blaming each other for France's biggest bankruptcy. Mr Pineau-Valencienne says the government should have put up fresh cash to make up for Creusot-Loire's past steel losses. The government says it would have helped, but only on two conditions: Schneider had to put up money itself, and had to accept a group of state-owned banks and institutions as shareholders in addition to the existing stake in Schneider held by the nationalised Paribas bank.

Schneider retorts that it has no money to put into Creusot-Loire. The government pooh-poohs that argument by pointing at the profits made by the group's other three big industrial subsidiaries. Schneider says each subsidiary must be kept separate. As for accepting new shareholders, Mr Pineau-Valencienne talks darkly of covert nationalisation.

Such shareholders would upset the delicate mechanism by which holding companies, with only a small slice of Schneider's capital, exercise influence over the group. One of these holding companies, SPEP, whose shareholders include Paribas, insurance companies and the Belgian Empain family, accounts for 3.5% of the group's capital but is estimated to control 20% of Schneider through a series of subsidiary holdings.

In 1979, Creusot-Loire accounted for 58% of Schneider group sales. Last year, it was down to 25%. While Creusot-Loire declined, the other industrial subsidiaries grew. The strongest performance has been by the Grenoble-based electrical-equipment firm, Merlin Gerin. It has raised sales by a hefty 150% to FF6 billion since 1979 and boosted profits to FF159m last year.

The group's civil-engineering company, Spie Batignolles, has more than doubled sales since 1979 to FF13 billion, with profits in 1983 of FF132m. The third main subsidiary, Jeumont-Schneider, a maker of railway and telecommunications equipment, transformers and industrial electronics, has grown more slowly. It suffered a 16% drop in profits last year to FF73m on sales of FF5.2 billion.

All three subsidiaries depend on big development contracts overseas and on government orders at home. Despite their recent prosperity, they could be vulnerable to the reduction in big contract business in the Middle East and Africa, and to the clamp on government spending in France. But they have so far avoided the problems that dragged down Creusot-Loire. That leaves the slimmed-down Schneider group in stronger shape while the receivers decide what to do with Creusot-Loire.

Container shipping

Circumnavigating the conferences

SINGAPORE

Two of the world's fastest-growing container fleets—Evergreen and US Lines—are separately about to start new round-the-world services. Evergreen's service will weigh anchor in Hongkong on July 19th and will operate in both directions.

US Lines will go one way, eastbound, from October.

The one-line, one-trip service is the logical conclusion to the spread of worldwide shipping networks as lines seek to deliver cargo door-to-door. It is also the biggest change to the shipping industry for years. For the first time, the industry's two big mavericks will face each other head on. Their struggle for supremacy threatens to capsize some other and smaller rivals.

These new services effect the shipping industry in three ways:

● **Capacity.** Between them, Evergreen and US Lines have placed firm orders for 36 ships with a total capacity of 116,000 TEUs (20-foot equivalent units, the standard container-box size). Since they plan to sell or scrap only a few existing vessels, this will sharply increase the world's surplus shipping capacity. There is already 15% too much cargo space on liner route between Asia and Europe.

● **Economies of scale.** Evergreen and US Lines are betting on big cost savings: from cutting out duplication of port calls; from needing fewer container boxes; and from the large container ships needed if round-the-world routes are to prove more efficient. US Lines has ordered 12 vessels with 4,218 TEUs capacity—among the biggest container ships ever made. Evergreen will man its ships with 18-strong crews—compared with up to 30, more usual on ships of the same size.

Evergreen is spending \$1 billion and US Lines \$600m on their new fleets and support services, sums that have daunted rivals because of the risks involved. Turning around containers is more complicated on a round-the-world service. Any delays can disrupt the entire schedule for the rest of the fleet.

● **Freight conferences.** Evergreen has never competed in the North Atlantic and US Lines have never ventured into the trade between Europe and Asia. Their advent could put further pressure on several of the main conferences (the industry cartels that seek to regulate shipping on the various routes).

Evergreen, founded 16 years ago by a former banana-boat mate, Mr Chang Yuang-fa, reached a "tolerated outsider" agreement with the Far Eastern Freight Conference (FEFC) in July, 1982. It promised not to lift more than 1.2m tonnes of goods a year on westbound routes and 720,000 tonnes in the opposite direction, while undercutting by no more than 5% conference rates on routes other than those to Japan. Few shippers expect this agreement to be renewed when it expires at the end of next year.

Evergreen may also encounter irresistible pressure to cut its rates in competition with US Lines. Both will need the

cash flow to pay off their growing debt. Between the two, they will have the capacity to lift more than a third of the total FEFC trade. FEFC insiders are already saying that, if a rate war does

break out, its members from 22 countries might start making bilateral national deals that exclude the two big carriers. More probable, a rash of tariff-cutting might prove contagious.

America's carmakers

Labour's love regained

DETROIT, LOUISVILLE AND SMYRNA

Workers and managers in America's car industry are trying to pull together to compete with the Japanese. But both sides have yet to prove that the industry's high labour costs, restrictive work rules and often ham-fisted management will be sufficiently improved. The next big test will come this month when negotiations begin between the carworkers' union (the UAW) and General Motors and Ford.

Could the old, unionised plants of America's motor industry eventually develop the close co-operation between management and labour that works so well in such Japanese companies as Toyota and Matsushita or such high-tech American ones as IBM and Texas Instruments? Managers and union officials at the carmakers say yes. Glummer critics say it may take years of steady progress, which could easily be set back by a long strike or bungled negotiations.

The car industry has probably changed faster than any other mature American industry in the past four years. Cuts in capacity, overheads and stocks, dozens of new models and protection from imports helped GM, Ford and Chrysler to make record profits in 1983-84. Car companies are bringing their engineering, design, assembly methods and parts-management up to Japanese standards. But similar progress in labour relations is harder. Managers in the motor industry—unlike those in the electronics industry—have long treated their workers like machines. Workers have dug in behind defensive rearmaments on pay and jobs negotiated annually by their union, the UAW.

In consequence, America's car companies have made their biggest productivity improvements in areas not covered by collective bargaining with the union, such as adopting the Japanese system of delivering parts to the assembly line just before they are used. Chrysler reckons to have saved \$1 billion this way in its first year. At GM's new joint venture in California with Toyota—which will make at least 200,000 cars a year from next year—and at its new Buick plant in Michigan an American carmaker will stamp body parts alongside the assembly line for the first time.

Quality has improved. Ford drivers have told Ford's happy pollsters that they reckon their vehicles are more than half as good again as they were two years ago. Productivity has shot up, as would be expected in an industry coming out of deep recession. Chrysler's workers built an average of 10 cars a year each in 1980. Now they build 19.

But the Japanese still produce cars more efficiently than Americans (let alone than Europeans); so GM, Ford and Chrysler make little or no money on their smaller cars. A main reason is that De-

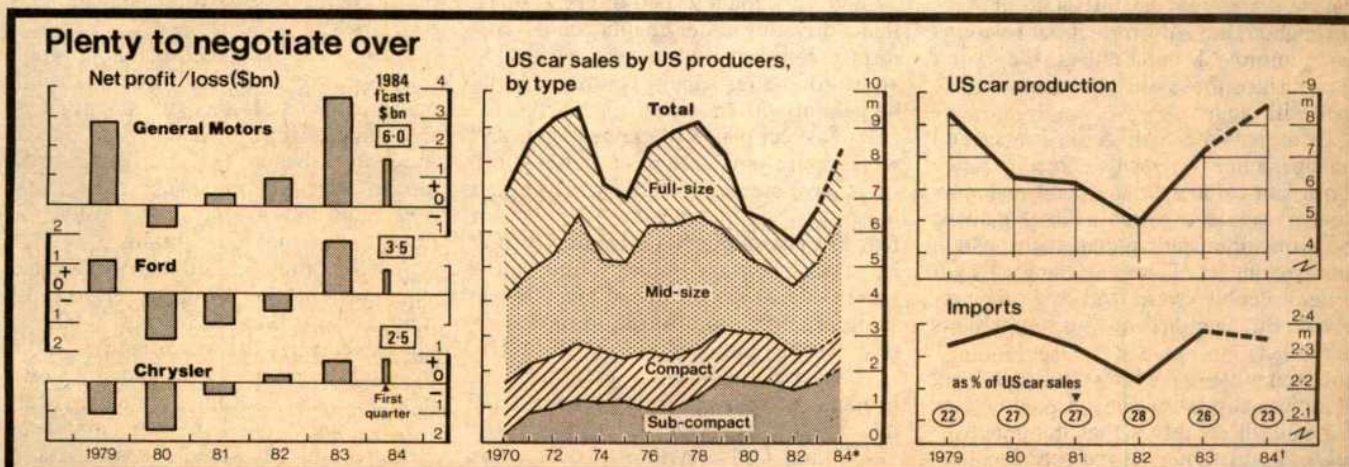
troit's labour costs are still about twice Japan's, and labour accounts for roughly 25% of the cost of a car. Estimates of the consequent gap in American-Japanese costs vary between \$700 and \$2,000 a car.

Assembly-line workers at GM earn a basic wage of nearly \$13 an hour, plus almost \$4 for cost-of-living allowances and other payments. Add in almost \$6-worth of benefits, and the bill for each hour worked is \$22.40. That compares with an average hourly rate of \$9 in the rest of American manufacturing industry. Until 1982, car workers expected at least a regular 3% annual rise, plus cost-of-living allowances. Pay was frozen in 1982 in return for a profit-sharing scheme, and limited experiments in job and income security.

The UAW will try to bargain this summer with GM and Ford (Chrysler settled separately) about jobs as well as pay. Though the union is already down to 1.1m members, from 1.5m four years ago, its membership in the motor industry will fall further as the industry becomes more efficient or shrivels up. So the union's new president, Mr Owen Bieber, is groping for a trade-off of assurances on job security for lower pay rises. The union has little leverage. If labour costs continue to rise, ever more cars sold in America will be built elsewhere.

GM plans to supply dealers with its next line of small cars from Japan, South Korea and from its joint venture with Toyota. If quotas on Japanese imports are lifted next year GM will get 570,000 cars a year from other makers (including its joint venture), equivalent to 17% of the cars it made in America last year.

Ford is also going offshore. It plans to import 130,000 sub-compact cars a year, by 1987, from a new factory in Mexico. Imports of foreign parts will also rise when Chrysler and American Motors complete new assembly plants making cars based on Mitsubishi and Renault



Sources: Company reports; Data Resources; Automotive News; US dept of commerce

*Jan-May at annual rate †First-quarter at annual rate

designs and parts.

GM says it still hopes to produce its own small cars in America. It has made much of a programme, nicknamed "Saturn" after the moonshot, to design a much cheaper car from scratch. The first Saturn model is expected in about two years. The union has worked with GM on this plan, and at least some people in the union take it seriously, because GM holds all the cards. If workers co-operate with the changes in manning and jobs needed to make the Saturn car, fine. If not, GM can force the pace at which the American motor industry goes offshore.

Though the motor industry does not know how many small cars will be needed in the late 1980s—cheap fuel has pushed up the share of large cars sold in America in the past two years—Detroit could still build its own if demand for small cars was strong enough to justify heavy investment in new capacity. Captive car imports from Japan help GM to hedge its bets, as well as to keep costs down.

GM and Ford did the same with small trucks. In 1980, when the American motor industry made only large pick-up trucks although demand for smaller versions was still growing, GM, Ford and Chrysler imported 230,000 small trucks from Japan. Since then, GM and Ford have learnt how to make their own and their imports have almost dried up. Ford alone will make 245,000 small pick-ups this year at its plant in Louisville, Kentucky.

Known as "Lousyville" before Ford managers and workers sat down together, in 1979, to talk about rescuing their rotten assembly plant from closure, it is now one of the company's most productive. The tide turned within a few months in 1979. Ford had too much capacity. Other plants in Louisville closed. Unemployment rose.

At the same time, a first-rate manager started to run the plant and Ford negotiated a national "employee involvement" plan which caught on fast at Louisville. Throughout the industry, labour relations have improved quickest at the worst plants, since these were the most threatened with closure.

To consolidate their gains, labour and management at Louisville agreed to hire a consultant to analyse the plant as a psychiatrist would a patient. His diagnosis: the workforce and management had a split personality. Things had suddenly got better. People were satisfied and relieved. But they had not forgotten years of conflict.

"Even now", says Mr Tom Ryan, head of industrial relations at the plant, "they can talk about things that happened 15 years ago as though it happened yesterday." To break the deadlock, the plant manager gave workers an informal guar-

antee that no jobs would be lost through improved productivity. Thereafter, co-operation blossomed.

Car companies have long known that many of their plants are managed badly. GM began a quality-of-worklife programme in 1973, under pressure from the UAW, to make workers hate their jobs less. But only when closures loomed in 1979 did managers and workers throughout the industry begin to take these ideas seriously.

Car companies have tried to improve labour relations and productivity by campaigning mainly for better quality. This



DON'T LET THEM TAKE THE MONEY AND RUN

The U.S. automobile industry is in a bind. It doesn't presently mean jobs for U.S. workers. The companies are pressed to attract world production in America, and the more than 300,000 jobs that go with it. General Motors, the Volkswagen Group, and Japanese imports (all of which are now in the U.S.) are all vying for the U.S. market. But the U.S. market is not only to meet manufacturing, but to absorb the glass, plastic, steel, high-tech, electronic and all the other industries that go with auto production. And the Japanese are not only vying for the U.S. market, but they are also vying for the U.S. market. Let's keep these jobs and good jobs at home, and maintain a strong presence of our industrial base at the same time. Tell your U.S. Senator.

KEEP THE JOBS IN THE U.S. SUPPORT DOMESTIC AUTO CONTENT LEGISLATION



Xenophobes of the world, unite

made sense because their cars were shoddy and the Japanese had already shown that a drive for better quality could transform a company. Also, managers could argue for better quality without formal bargaining with the union.

In most car plants where managers and workers are now getting on better, both sides have steered clear of changes that have to be negotiated with the union, for fear of undermining its officials. Even at Louisville, Ford did not try to reduce the plant's many job classifications, though these are often an obstacle to more efficient production.

A few experiments in negotiating more productive work rules have been tried under the 1982 contract between the UAW and GM and Ford. Local union officials and Ford managers attempted at three plants to negotiate greater job secu-

rity in exchange for more flexible rules on who did what and when. Only one of these experiments worked, at Ford's Rawsonville components plant.

In return for Ford's guarantee of at least 32 hours of paid work a week for 3½ years, workers at Rawsonville voted for a plan which cut the number of skilled-trades classifications from 24 to 13 and allowed some employees to work part-time for a year, doing a full shift only when their help was needed. Workers at Ford's Chicago assembly plant threw out the local version of this scheme and with it the union official who backed it. That made other local union officials who had been keen on joining the experiment wary.

Nissan, Honda, and—at some of their plants—even American car companies have shown that managers and employees can work well together. GM is likely to make the point again with its joint venture with Toyota, where the UAW has agreed on no more than five different job classifications. Without such concessions, the plant would not have been built.

But companies will be hard-pressed to get such concessions throughout the industry. The manager in charge of labour relations at Nissan's plant in Smyrna, Tennessee, reckons that attempts to make America's old unionised car plants as efficient as Japan's will be "infinitely more complicated" than setting up new, non-unionised plants.

Pressure on the union and employers to broaden their bargaining about productivity is growing. Though quotas keep Japanese carmakers to about 20% of the American market, Honda is doubling the capacity of its Ohio plant to 300,000 cars a year, and Nissan now plans to build 100,000 small cars annually in Tennessee. If import quotas are junked next year, the Japanese may ration their exports to prevent another trade row, but American companies would have an unlimited supply of Japanese cars to sell under their own labels.

Japan's car companies built up good relations with workers through careful management and constant repetition of the message that jobs were safe only if they were efficient. GM, Ford and Chrysler can offer the same sticks and carrots. Still, more jobs are sure to be lost as the industry becomes more productive.

A GM study leaked early this year suggested that the company may cut its unionised workforce from 370,000 to about 300,000 in the next three years. But by closing some plants, keeping down labour costs and raising productivity, carmakers could make the remaining jobs more secure. This summer's negotiations will show whether Detroit will do this with, or in spite of, the union.

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FINANCE

Policing the City of London

The City of London and the politicians trying to change it are galloping off in all directions as the August holidays approach. This week, Mr Nigel Lawson, the chancellor of the exchequer, came out for tougher policing of the world's fastest-changing financial centre. Last week, Mr Norman Tebbit, the trade secretary with direct responsibility for investor protection, shied at that fence. He told the City merely to get its self-regulatory act together or else. Most weeks, Mr Alex Fletcher, the trade minister for corporate and consumer affairs, urges four strong self-regulatory agencies (SRAs) and minimal outside intervention.

Now the group of leading City lights who are advising Mr Robin Leigh-Pemberton, the governor of the Bank of England, have begun to signal a tentative thumbs up on self-regulation-plus. It will all come to a head in a few weeks, when Mr Tebbit is expected to say in the course of a parliamentary debate how he (and, probably, Mrs Thatcher) see things. The bodies concerned all point out (correctly)

that the differences are nuances.

Mr Lawson, Mr Tebbit, the Bank, and Cityfolk agree that the new-look City, where a rush of alliances and mergers is rapidly creating more broadly-based groups offering more diverse financial services, should be competitive at home and abroad; innovative and efficient in raising capital; and safe for investors.

Despite bouts of public coyness, there is broad acceptance in Whitehall (if not on Tory back benches) that whatever form of regulation emerges to protect investors will need some kind of statutory backing. The wrangle now is over what kind, how much, and who exercises it.

Mr Lawson's views, expressed to the Conservative party's Bow Group on July 3rd and his first speech on changes in the City, deserve their rapt analysis by financial Whitehall-watchers this week. In a mixed bag of scoops, trailers, and thinking aloud, he outlined the following most-desirable developments:

- A new permanent **Fraud Investigation Group** (called Fig, alas), combining pros-



Nice one, Nigel

ecuting lawyers, specialist accountants, and investigators from the trade department working in liaison with the fraud squad. Fig will be set up in the department of the director of public prosecutions (DPP) on January 1, 1985, to deal with serious fraud cases.

Ad hoc Figs have tried since 1980 to

Complaints OFT-times told

While the great and near-great agonised over financial reform in the City of London this week, the government quietly put paid to proposals for reforming its merger policy.

Britain's complicated arrangements for screening planned takeovers has long provoked complaints. The office of fair trading (OFT), the government's competition watchdog, initially recommends whether to refer to the independent monopolies and mergers commission a proposed merger which would result in merged assets of at least £15m or a market share of 25%. Ministers (usually the trade secretary) may overturn the OFT's decision.

If it is not overturned, the monopolies commission assesses whether the merger is in the public interest, defined according to various criteria. If the commission finds against the merger, ministers again can reverse its decision. Companies and

their merchant banks say that they cannot plan takeovers because they can only guess whether the deal will be held up in prolonged scrutiny. They want objective criteria and less ministerial discretion. Mr Hans Liesner, who prepared a thick report on competition policy in the late 1970s for the (then) Labour trade department, found much to dislike, too.

Mr Norman Tebbit, the trade secretary, told parliament on July 5th that he thinks the existing system works well enough. From August 1st, the threshold beneath which the OFT need not refer mergers will be doubled, from £15m in combined assets to £30m. It was last raised in 1980.

The increase should reduce the number of mergers qualifying for investigation from about 200 to 150 a year. Predictably, Mr Fletcher proposes no other big changes—but two steers.

First, references to the monopolies

commission will be made "primarily on competition grounds". Second, competition will be defined with an eye on the international context: an oligopoly at home need not be a bad thing if it improves British competitiveness abroad or in home markets where imports dominate.

The statement is intended to be this government's last word on merger policy, says Mr Alex Fletcher, the trade department's minister for corporate and consumer affairs. That is a pity. Mrs Thatcher is keen on competition and on regulatory clarity to help companies make rational commercial decisions. Her competition act of 1980 promised much but did little besides abolishing the Price Commission, which business hated, and bringing nationalised industries within the scope of competition laws. This week's statement is helpful but hardly all-enlightening. Mrs Thatcher has never got to grips with the Fair Trading Act, which is capable of much improvement. Now, it seems, she never will.

GM's class of '84

NEW YORK

General Motors reckons it has hit upon a new way of rewarding the go-go managers of Electronic Data Systems (EDS), which it wants to buy for \$2.5 billion. If the shareholders of both companies agree, GM plans to issue a new so-called class E share. These shares will guarantee existing EDS shareholders a minimum return over the next seven years of 16.1% a year, but maybe a lot more. How does it work?

EDS shareholders are to get \$35.20 in cash, plus 0.2 of a class E share, together worth around \$44. Tacked on to the class E shares is a form of non-transferable GM debenture note. This ensures class E shareholders a minimum of \$125 per share at the end of seven years, or a compound annual return of 16.1%. If they sell the shares before the seven years are up, shareholders get no more than their market value at the time.

Since the value of the new class E shares is linked directly to the profits of EDS, not its sometimes sluggish parent GM, shareholders could (in theory) earn much more than the minimum rate of return. If, for instance, the new shares are selling at a price of 30 times EDS' forecast earnings, or well above \$125 a

share, then the 0.2 of a share that EDS shareholders are to be issued with will be worth \$25—a fifth of the guaranteed payout at the end of seven years. EDS's earnings are expected to grow rapidly over the next few years, thanks mainly to the service contracts it hopes to pick up from GM, one of the biggest users of industrial computers in America.

To spice the market in the new shares, GM plans to issue a slew of new class E equity over the next year. Snag: those issued on the open market will not include the GM debenture note, so they cannot be sold back to the company for \$125 in seven years' time.

America's Securities and Exchange Commission has already given GM its blessing to the issue of class E shares. The New York Stock Exchange is not so happy. It frets that the shares will have only half a vote. At the same time, though, it is loth to see GM (one of the 30 constituent stocks of the Dow Jones industrial average) turn its back on the big board. The American stock exchange has no such foibles. In anticipation of a big coup, the exchange has been badgering GM to let it become the main market for GM shares.

on that by August the country's monthly inflation rate could rise to 30%. So President Raul Alfonsin may have less to lose from adopting the IMF's austerity measures than from letting his economy slide into the grip of yet higher inflation.

Lloyd's of London

Brooking no evil

Lloyd's of London will not be able quietly to clean up its market. A one-time member of the club, Mr Christopher Moran, has started civil proceedings against those involved in the so-called Fidentia affair—two (now suspended) underwriters, Mr Raymond Brooks and Mr Terence Dooley, three companies connected with them, and five insurance brokers.

The Bermudan-based Fidentia Marine Insurance Company was controlled by Mr Brooks and Mr Dooley. They also owned the Brooks and Dooley underwriting agency which managed eight syndicates and ran the Lloyd's affairs of roughly 600 names—wealthy folk, among them Mr Moran, who back the market with their money. An internal Lloyd's report found that Fidentia (ie, Mr Brooks and Mr Dooley) had benefited from some reinsurance contracts at the expense of (and unbeknown to) names. Fidentia's net

gain was £6.2m (\$8.5m). Mr Dooley, Mr Brooks and his daughter held no-limit Visa and Mastercharge cards in the account of Fidentia and ran up bills of more than \$134,000. Miss Mary Brooks innocently thought the arrangement was "a deal with Father Christmas".

Mr Moran is suing the two underwriters for alleged deceit and/or breach of contract and/or breach of fiduciary duty. He is also seeking damages from corporations, including two Lloyd's brokers, Bellew Parry and Raven, and Alexander Howden and Swann, for alleged breach of fiduciary duty "as constructive trustees" by reason of their "knowing assistance" in an alleged "dishonest and fraudulent design" of Mr Brooks and/or Mr Dooley.

This is just the kind of lawsuit that the newish Lloyd's-appointed managers of the Brooks and Dooley managing agency had hoped to avoid. They are busy negotiating with names. Some \$4.1m sitting in an escrow account will be handed back come what may, they say, but forgone interest (yet to be calculated) will be returned only if names give up their civil rights to sue those involved in the Fidentia affair. Unlike a similar offer made to Minet names a fortnight ago, this immunity relates only to Fidentia. If any other hanky-panky comes to light, names would be free to sue.

Mr Moran is no run-of-the-mill name.

He owns a Lloyd's broking company. Until October, 1982, he was a working member, if a bit of a maverick. He was thrown out of the club for, among other things, "taking a profit commission not provided for in the terms of an insurance contract".

Hongkong property

On a Wang and a prayer

HONGKONG

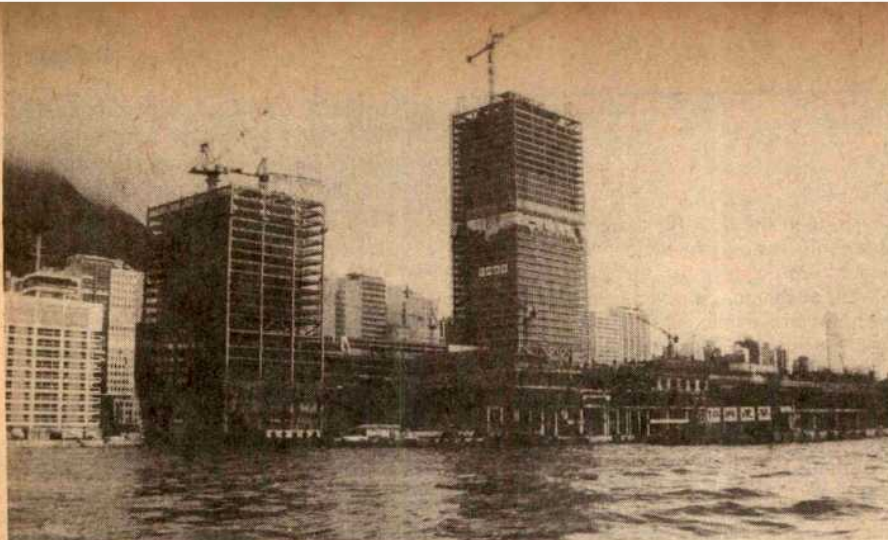
When he arrived in Hongkong 18 months ago to set up the Peking-backed Everbright Industrial company, Mr Wang Guangying said one of his aims was "to give oxygen" to the colony—then (as now) purple over its future beyond 1997, when the British lease on two thirds of the territory runs out. Several fudged deals later, he is in danger of putting Hongkong's financial markets into a dead faint.

Last week, Mr Wang announced that Everbright was pulling out of a deal, agreed in principle in January, to pay HK\$1.3 billion (US\$170m) for a big chunk of the City Garden residential development in the North Point district of Hongkong Island. When it was announced, the decision was seen as a vote of confidence in Hongkong's shaky property market.

Why the change of heart? Partly because if it were to buy phases two and three of the development from International City Holdings, a company controlled by the property magnate Mr Li Ka-shing, Everbright would be paying prices that were up to 40% above those at which similar flats are now changing hands in the market. Partly because Mr Li had doubts that the development would pay.

When Mr Li said that, although City Garden was nearly two-thirds finished, he could no longer guarantee that it would be completed as planned, the local stockmarket took fright. Worse was to come. There was a rumour on Monday, July 2nd, that a consortium including Everbright might back out of plans to develop the Admiralty Two site in Hongkong's central district, bought for HK\$380m at auction in February. This caused the stockmarket to shed another 32.44 points to 868.63; by mid-week it dropped to a new low for the year of 850.33. Although the Admiralty Two rumour was later denied, Everbright subsequently said that it had decided to abandon plans to develop a HK\$300m resort with a local casino owner, Mr Stanley Ho, on Coloane Island in the nearby Portuguese territory of Macao.

Did Mr Wang, brother-in-law of China's late president Liu Shaoqi and a one-



What price the waterfront?

time vice-mayor of Tientsin, ever intend to go ahead with the deals? When Everbright first announced its plan to buy part of the City Garden development, it said that it was only chipping in between 5% and 10% of the HK\$1.3 billion cost; a big dollop of the remainder was to have been put up in loans to Everbright by the Peking-owned Bank of China.

By all accounts, the Bank of China is in no mood to bankroll loss-making deals in Hongkong's tired property market. In May, Sin King Enterprises, jointly owned by the Bank of China and its trading arm, China Resources, saw the value of its 34.8% stake in Conic, a Hongkong electronics company, drop by more than a half to HK\$75m; this was partly because Conic announced HK\$217m in bad debts to private companies controlled by its founder, Mr Alex Au. Once bitten?

New York property

Charging the battery

A decade ago New York was financially rotten to the core. Now it is the Big Apple again. Prime office rentals in midtown Manhattan have risen from under \$50 a square foot at the end of 1983 to \$55 for the best space today. In downtown Manhattan (around Wall Street and the World Trade Center), rents in new properties have increased from \$30 to around \$40 a square foot.

Midtown Manhattan has the world's largest concentration of commercial office space (150m square feet) but the cost and scarcity of development land has sent builders and tenants to the Wall Street area. This year, another 3m square feet will be added to the 70m square feet downtown. Two thirds of that had been leased in advance by the end of 1983.

Much of the biggest development—the 7.5m square feet of the World Financial Center being built on reclaimed land at Battery Park—has been pre-let at \$35-40 a square foot. Shearson/American Express has taken 2.3m square feet. Dow Jones has taken 1m. Merrill Lynch may take 2m square feet.

Who is bankrolling the new developments? Many are foreigners. Olympia & York, controlled by the Reichmann family of Toronto, is developing the World Financial Center. The Reichmanns made their debut in the New York commercial property market with a \$320m purchase of eight buildings from the National Kinney Company in 1977. These are now worth more than \$2 billion, making them one of the best property deals since

Governor Peter Minuit bought Manhattan from the local Indians for \$24-worth of beads and trinkets in 1626. With 13m square feet, the Reichmanns are the city's second biggest commercial landlord, threatening soon to overtake the Rockefeller Center.

Other foreigners busy changing the shape of Manhattan include Mr Jacobo Finkelstein, an Argentine who is putting up a 36-storey building on Third Avenue, and the British developer Mr Howard Ronson, once criticised by Britain's department of trade. Through HRO International, Mr Ronson now has six buildings with almost 3m square feet of space either completed or under construction in New York.

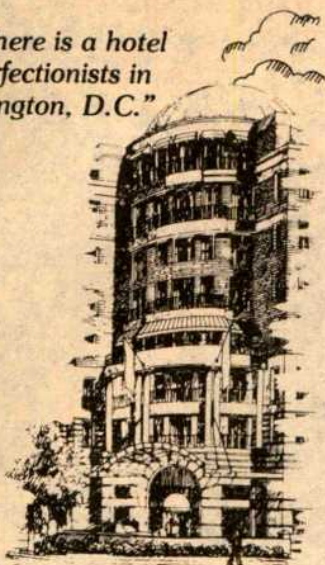
New York has seen building booms before, most recently just before the financial crisis that broke in 1975, when Mr Abraham Beame was mayor. This time, say the optimists, things are different: the percentage of new property that is leased in advance is much greater. John Ryan, president of Landauer Associates, the property consultants, says: "In 1973-74 guys had one building finished, one under construction, and one just coming out of the ground—all uncommitted. Nobody does that now".

Maybe, but there are worries. As new buildings go up, many of their tenants are decanted from old ones which may not be so easy to refill. And already a Canadian company, Cadillac-Fairview, has defaulted on payments for a site on the corner of Lexington Avenue and 53rd Street.



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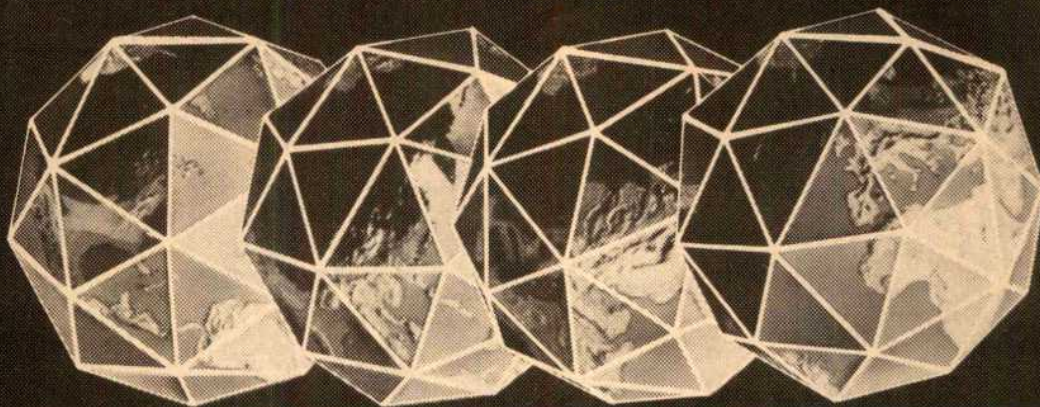
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SCIENCE AND TECHNOLOGY

Japan shortens the odds in the microchip stakes

Pessimists in California say Japanese semiconductor manufacturers have overtaken chip makers in Silicon Valley and are now streets ahead. Optimists say it is only a matter of time before they do and become so. Realists say things for America's integrated circuit firms are nowhere near bleak—at least for the present.

One thing, the \$500m microchip deficit that the United States has with Japan makes Silicon Valley's output look smaller than it actually is. The trade figures ignore all the "captive" semiconductors made in-house or by local tied suppliers for some of America's biggest microchip users—including IBM, AT&T, General Motors and Hewlett-Packard. For another thing, Japan's trade in integrated circuits remains concentrated at the bottom end of the market where the profits are slim and the technology is undemanding.

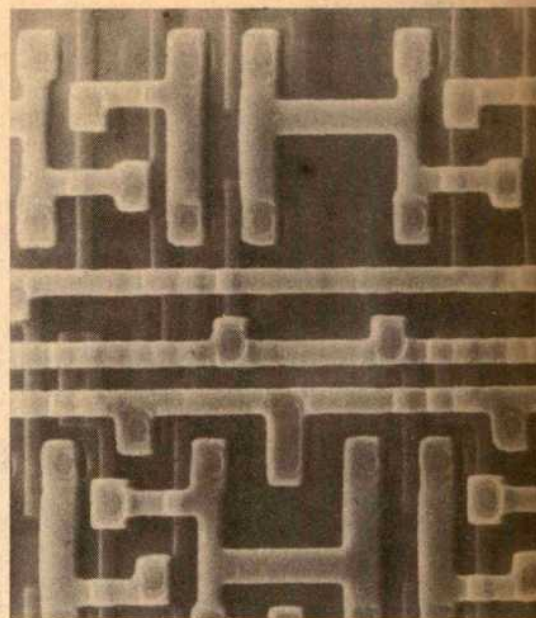
Japan's microchip industry is something of a curate's egg. It is good at making computer memory chips and low-power circuits for portable devices, but

behind the American industry in tasks like inventing ingenious architectures for chip-based computers and making integrated circuits do clever things by programming them properly.

That said, the going is beginning to look like being more and more in Japan's favour. For one very good reason. Japanese semiconductor manufacturers have all backed the right horse—a power-saving semiconductor technology known as CMOS—in the race to make the biggest, cheapest and best microchips.

Japanese electronics firms dutifully bought licences in the mid-1970s for CMOS (complementary metal-oxide semiconductor) from RCA in America. Though tricky to make and sluggish in operation, CMOS chips need only tiny amounts of power—hence their attraction for pocket calculators, digital watches, electronic toys and other battery-powered products that Japanese manufacturers singled out for domination a decade ago. American semiconductor manufacturers, by contrast, favoured the

TOKYO



Fast track to success

much faster type of circuit known as NMOS (N because it relies internally on negatively-charged carriers). Though they use a lot more power, NMOS circuits are easier to manufacture and allow chip designers to do really clever things—like cramming all the components for a microprocessor into a single device.

Lately, however, chip-makers in

And now for Gallium Gulch

TOKYO

Japan's second most favourite type of microchip (after CMOS—see story above) uses gallium arsenide instead of silicon. This allows it to work up to 10 times faster than conventional CMOS ones. However, Japanese manufacturers are finding the going harder than expected. Gallium arsenide chips are proving troublesome and expensive to make, suffering from many of the defects that plague CMOS's faster cousin, SOS (silicon on sapphire). They are also under counter-attack from conventional microchips. Silicon-film technology could yet erode gallium arsenide's advantage.

The Japanese are nevertheless concentrating on ironing out defects in gallium arsenide. Tight-lipped about its production tricks, Sumitomo Electric is believed to have made the most progress. It has ambitions of being the main

supplier of gallium arsenide material, leaving chip fabrication to others. It has already made crystals of the material with well under 200 defects per square centimetre, and says it can now produce 16k gallium arsenide rams (memory chips that can store up to 16,000 bits of data). In America, Lockheed reckons gallium arsenide chips will only become viable when the defect count falls below 100 per square centimetre.

If Japan wants to dominate the digital-chip market for gallium arsenide, it will have stiff competition from not only Lockheed but also Rockwell—which claims to have already made a gallium arsenide HEMT (high electron mobility transistor) which works as fast as the record-breaking Josephson junctions, but at room temperature rather than absolute zero (-273°C). Fujitsu, the

HEMT inventor, is not amused.

No one technology for using gallium arsenide (eg, CMOS, SOS, NMOS, etc) is dominating the scene. This may be the reason why entrepreneurs have not exactly been queuing up to invest in gallium arsenide developments. California's Gigabit Logic remains America's only recent start-up specialising in digital circuits based on gallium arsenide.

In fact, there are as many recipes for fabricating the microcircuits as applications for the chips themselves. Toshiba, scenting a big market for gallium arsenide gate-arrays (semi-finished microchips), has favoured a process called DCFL which manages to get up to seven times as many active components on a gate-array as any rival technique. Unfortunately, it is up to seven times slower. But on one thing all Japanese chip makers agree: memory chips based on gallium arsenide can still only store a hundredth as much data as ones built out of good old-fashioned silicon.

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America have also come to see unsuspected advantages in CMOS. They, too, are now scrambling to improve its operating speed and to pack a lot more components into individual CMOS chips. They are watching what Japan is doing carefully. Here, then, are five favourites in the microchip stakes that Japanese firms are backing heavily:

● **Computer simulation.** The Japanese have become experts at shrinking micro-circuitry—so many more components can be squeezed within the few square millimetres of silicon. A good deal of original research has been needed. As semiconductor devices get smaller, new physical effects come into play, particularly where critical components are microscopically small—ie, less than one micron (one thousandth of a millimetre) in length. Here, the computer predictions needed to work out how a proposed new chip will behave when built become horrendous. Japanese researchers seem to have licked the computer software problems rather well.

● **Ultra-thin films.** In trying to make CMOS chips flip on and off faster, research groups are producing their chip components in ultra-thin films of silicon (less than a micron thick). Beneath the film is an insulating layer which helps squeeze all the minute electrical currents that operate the chip within the film itself, boosting the device's switching speed in the process.

● **SOS for speed.** Several Japanese firms are turning their attention to the high-speed version of CMOS pioneered a decade ago by Hewlett-Packard. One tricky problem, however, remains with this so-called SOS (silicon on sapphire) technique. Though the two materials mate better than most, their atomic union is less than ideal. The mismatch at the interface between the two layers creates minute crystalline defects in the silicon which degrade the microcircuit's performance. The only answer in the past (not wholly satisfactory) has been to rely on thick layers of silicon.

Toshiba thinks it can solve the problem by firing massive doses of silicon ions (charged atoms) below the device's surface—to mangle up the troublesome interface between the silicon and sapphire. Done carefully, the interface can then be "regrown" and made to fit exactly by using the undisturbed remainder of the overlying silicon film as a template. In the United States, only Hughes is reckoned to be equally adept.

● **Implanting oxygen ions.** Nippon Telegraph and Telephone (NTT) has been pushing two of its own CMOS processes hard. One, called Simox, depends on implanting huge doses of oxygen ions into ordinary silicon wafers (the discs from

which chips are made). The oxygen forms a thin layer of silicon dioxide beneath the surface. Being an excellent insulator, the dioxide layer provides a stable base for fabricating the chip components in the silicon film above—a convenient way of making high-speed CMOS circuits.

The other process is called Fipos, which NTT is tipping for its next generation of four-megabit rams (ie, random access memory chips for storing up to 4m bits of computer data). Fipos also depends on burying a layer of insulating silicon dioxide. In this case, it is done by turning microscopic parts of the silicon into a kind of sponge—so intricate a process as to leave western chipmakers in awe.

● **Painting chips.** Japanese researchers are using ion implantation to inject a wide variety of particles into silicon—but with an interesting new twist. Hitachi, for instance, is looking at ways of "painting" precise component images on the silicon's surface, instead of just shooting ions into the material and hoping they are roughly where needed. Hitachi reckons its latest research FIB (focused ion beam) machines could eliminate many of the preparatory stages in chip-making and place individual atoms for each component spot on. Commercialisation? In the late 1980s.

Japan is still behind in designing complicated semiconductor devices such as non-digital circuits for broadcasting, signal-processors for defence, as well as the ubiquitous computer-on-a-chip micro-processor. After years of copying micro-processors designed in America, then converting them so they can be made in CMOS, the Japanese have begun designing their own from scratch. To be sure, this has been prompted as much by the need to get off the hook of infringement of American patents as by any drive to innovate. But it has given at least one company, NEC Corporation, a chance to show some originality with its new 16-bit and 32-bit microprocessors.

Here NEC has demonstrated Japan's greatest industrial skill of all. It has cannily awarded Hewlett-Packard's Japanese arm the contract for writing all the complex software such chips need for managing their internal operations—proving, once again, that even the very best Japanese firms are never too proud to ask for help.

Incest

On the scent

Despite their dubious reputation, mice go to extraordinary lengths to avoid mating with relatives. They may delay puberty, stop ovulating and even abort their young. Recent research suggests they do

all this using just their sense of smell.

Animals (and plants) that mate with close relatives tend to produce inferior offspring. Mice are no exception. In 1974, for instance, Dr James Hill of Michigan State University found that prairie-deer mice that mated with their brothers produced smaller litters which were lighter in weight than those of prairie-deer mice mating with genetically unrelated males. It is hardly surprising, then, that mice, and other small mammals, have evolved tricks to avoid inbreeding.

There are two main ways in which a



female can avoid mating with close relatives. One is to move away from home before she comes into reproductive condition. She can then mate in an area where she is unlikely to meet close relatives. The second way is to make sure she can recognise kin and avoid mating with them if they attempt to court her. But can animals recognise their kin?

In the 1970s, a large number of studies confirmed that many animals can indeed recognise relations. However, one problem with such studies was that they could not separate genetic relatedness from familiarity. Close relations are often familiar to an animal—and that may be the way in which they recognise them. Even if an animal is separated from its mother and all other relatives at birth, there is still the possibility of it remembering its siblings from the womb.

However, in 1980, a group led by Dr Hannah Wu at Washington University demonstrated that monkeys can discriminate between half-brothers and non-kin. Given a choice between entering a cage containing a half-brother and a cage with an unrelated male, monkeys will go for the cage with the half-brother. The exciting thing about this experiment is that, although the half-brothers shared the same father, they had different mothers. Thus there was absolutely no question of the monkeys having known each other, even in the womb. Yet they recognised their genetic relatives.

This ability is not confined to monkeys. Mice, too, are pretty good at this kind of

direct kin recognition. But how do they do it? All the evidence points to "olfactory cues". Surprisingly, even man can distinguish between kin and non-kin using his nose alone. In 1981, Dr Richard Porter and Dr John Moore of America's Vanderbilt University showed that children can identify their brothers and sisters, and parents can tell which are their children, simply by smelling their sweaty T-shirts. Dr Porter's team has since shown an even more remarkable facet of human behaviour. Mothers can identify their own children using just olfactory cues when their children are only a few hours old. In some cases, the mother recognised her baby's smell even when the newborn baby had been separated in an incubator since birth.

Although sweat odours may be distinctive to man, mice appear to use a rather different kind of olfactory cue—chemicals with complex structures (pheromones) which are excreted in urine. These pheromones are responsible for a number of rather dramatic effects. As early as 1959, Dr Hilda Bruce of the National Institute for Medical Research in London observed that pregnant females, housed with males other than their mate, would spontaneously abort their young. The presence of a strange male appeared to block implantation of fertilised embryos during the first few days after conception. Further experiments established that this "Bruce effect" was mediated by pheromones secreted in the male's urine.

These male pheromones were also shown to have other effects on a female's reproductive physiology. In 1967, Dr John Vandenberg of the Dorothea Dix Hospital in North Carolina found that male pheromones cause juvenile females to accelerate puberty. Female mice, without males, will normally ovulate for the first time when they are about 57 days old. However, exposure to a male can reduce this by as much as 20 days. In later experiments, Dr Vandenberg and his team showed this effect is produced by a non-volatile peptide (a short chunk of protein) found in the animal's urine.

So what have these urinary peptides got to do with kin recognition? Quite a lot. Dr Dennis Lendrem of Britain's University of Newcastle upon Tyne argues that females can use urinary peptides to avoid inbreeding. If this is true, then you might expect females to recognise urinary peptides and delay puberty if those pheromones belong to close kin.

In a study to be published soon, Dr Lendrem tested this idea by exposing juvenile females to soiled bedding from the cages of various males. These males differed in their degree of relatedness to the female. One group was exposed to

soiled bedding from their father's cage; a second group to bedding from an uncle; a third to bedding from male cousins; and the fourth was exposed to bedding from complete strangers of no genetic relation. These four groups were compared with controls who received only fresh bedding.

Sure enough, the females exposed to non-kin showed the greatest acceleration of puberty. They ovulated up to 10 days ahead of females exposed to their fathers or an uncle. This is quite a feat, equivalent to a girl reaching puberty at eight years of age instead of 12 years or so.

Cosmic invaders

Interstellar space is a busy place. Traveling through it at nearly the speed of light are cosmic rays—the charged cores of atoms. Where do they come from? Scientists are using charged particles called muons to get a better idea. Cosmic rays crash into the earth's upper atmosphere and the products of the collisions eventually break down, by a series of steps, into showers of muons. Detecting these at ground level gives information about the cosmic rays. But Russian scientists now think that muon detectors can be used for a whole host of more down-to-earth applications.

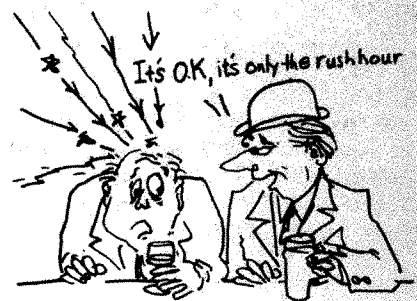
Cosmic rays, and the muons they produce, are usually considered a nuisance. Every second, five high-energy muons zip through your skull, doing fortunately little biological damage. Staying indoors does not help; muons easily plough several kilometres into the earth. But muons are giving microchip designers a headache. Along with other sources of background radiation, they may set a limit on the number of components that can be crammed into a single microchip. If individual memory cells on a chip are made too small, muons will switch the cells on and off randomly.

As if this was not bad enough, certain scientists believe that a sudden increase in the cosmic ray intensity may have produced enough harmful radiation on earth to cause the mass extinction of the dinosaurs. The cosmic ray flux reaching earth over the past 50m years has, however, been remarkably stable, and the same from all directions. Although this is a comforting thought for most of us, it provides a puzzle for astrophysicists. Why do cosmic rays seem to come from everywhere?

The most recent speculations suggest that the charged atom cores (90% of them hydrogen) are initially accelerated to tremendous velocities by the shock waves of supernovae—the cataclysmic explosions of dying stars. They are then violently stirred up in the magnetic fields of the galaxy. So by the time the cosmic rays reach earth, it is impossible to tell where they came from—like trying to tell the direction of the sun in a thick fog.

However, females exposed to their cousins showed an acceleration of puberty almost equal to that of females exposed to non-kin. Presumably females do not mind mating with cousins. Behavioural studies have shown a similar effect. Japanese quail, for instance, prefer first cousins to closer kin or more distant relations.

In a second series of experiments, Dr Lendrem used the same rationale to look at the effects of kinship on the Bruce effect. He found spontaneous abortion to be frequent whenever pregnant female mice were exposed to strange, unrelated



Because the cosmic rays reaching earth give such an even "illumination", the muons they produce rain down remorselessly. It is precisely this aspect of the muon showers that can be used to advantage. Muon detectors are installed below ground, to cut out background noise due to low-energy muons not directly involved in cosmic ray collisions. One such muon detector—beneath Holborn underground station in London—measured a different muon intensity when pointed in one particular direction. The explanation was that material in this direction was less dense. What had been detected was a long-forgotten tunnel. The muon detector had effectively been used to "X-ray" the ground above it.

Scientists have since attempted a muon-detector search for secret vaults in the Chephren pyramid in Egypt. Lack of success dampened enthusiasm for the method, and researchers returned to the task of understanding cosmic rays. Recently, however, the muon-detector technique resurfaced in Russia. It was used to estimate the weight of the Moskva Hotel, to assess whether an underground railway could be built beneath it safely. More ambitious applications have involved muon detectors for mineral prospecting and monitoring regions of the Caucasus mountains which are prone to landslides. It may even be feasible to determine the amount of water in a snow blanket, and hence give avalanche warnings, according to researchers in Tadzhikskaya.

Meanwhile, back in Holborn, it is possible to measure small daily variations in the weight of the earth's crust locally using the muon detector. The effect is known to Londoners as the rush hour.

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males. Pregnant females exposed to their fathers, however, showed no spontaneous abortion.

The exact mechanism by which mice recognise their relatives remains a mystery. But, at least in mice, the scent leads unquestionably to the urinary pheromones.

New materials

Prawn cocktail

How's this for waste? Ten billion tonnes of it are produced annually. It helped the Royal Air Force win the Battle of Britain. It can be used to make synthetic skin, disposable contact lenses, paper and textiles, and help farmers grow more food. A Texas University researcher is even using it to give violins the Stradivarius sound. Yet people either throw it away or ignore it. The substance in question is a polymer found in crustaceans, insects and fungi called chitin (Greek for "tunic" and pronounced "kyetin").

Man has been aware of chitin—nature's second most abundant polymer after cellulose—since the earliest of times. North American Indians used chitin-containing shells to treat wounds. Mexicans favoured various fungi that contain chitin for the same purpose. During the second world war, British aircraft manufacturers employed chitin-based glues for bonding airframes. The trick was learned from studying how barnacles use chitin to cement themselves to rocks and ship hulls.

It is only in the past couple of years, however, that manufacturing industry generally has begun to cast a commercial eye on nature's wonder material. The lesson it is learning is that anything cellulose can do, chitin can almost invariably do better and more. Chitin patents have been appearing in applications as diverse as photographic film, surgical sutures, burn dressings, artificial-kidney membranes, liquid crystals, anticoagulants,

hair sprays and contraceptive lubricants.

Like cellulose, chitin rarely appears alone in nature. It is usually found mixed with protein (in the case of insect exoskeletons) and protein plus chalk (in crustaceans). In marine organisms, the chitin can be extracted by first removing the chalk with acid and then stripping away the protein with alkali. If a stronger alkali is used, the chitin can be converted into chitosan—a useful polymer in its own right and a good starting point for other derivatives. In either case, more effort is needed than for cellulose (wood can be stripped of its lignin and other components in a single step).

Some applications that promise fairly early pay-off include:

● **Synthetic skin.** Chitosan forms a tough, water-absorbent film which, being biocompatible, is good for treating burns. Synthetic skin is formed by immersing the burn in a solution of chitosan acetate. Lysozyme, an enzyme present in wounds, slowly degrades the film. In research with rats, chitin has been shown to accelerate healing of wounds by up to 50%. The American drug firm Johnson & Johnson is interested in using chitin for impregnating bandages and plasters. Unitika of Japan has already started doing so.

● **Contact lenses.** Instead of having to be machined, lenses made of chitosan can be simply moulded instead. That makes them potentially so cheap as to be disposable. In addition, they can be made in both hard and soft varieties, each permitting more oxygen to pass through to the eye than conventional contact lens materials. An American optical firm called Frigitronics has bought the manufacturing rights from the University of Washington where the technique was invented by Professor Graham Allan.

● **Agriculture.** Professor Lee Hadwiger of Washington State University has been studying how to use chitosan as a plant fungicide. Coating seeds with chitosan seems to have two effects: it makes the attacking fungus less pathogenic; and it induces a disease-resistant response in the

plants that result. Sprinkled on seeds of wheat, peas and lentils, chitin increases their yields by 10-30%.

● **Animal feed.** Because chitin derivatives contain no protein, they make poor feedstuffs. Nevertheless, the material is finding a role as an additive to animal feed. Professor John Zikakis of Delaware University has found that the addition of small amounts of chitin to the diets of chickens and calves makes them able to digest lactose. This would allow farm animals to eat whey, the high-protein by-product of cheese manufacture.

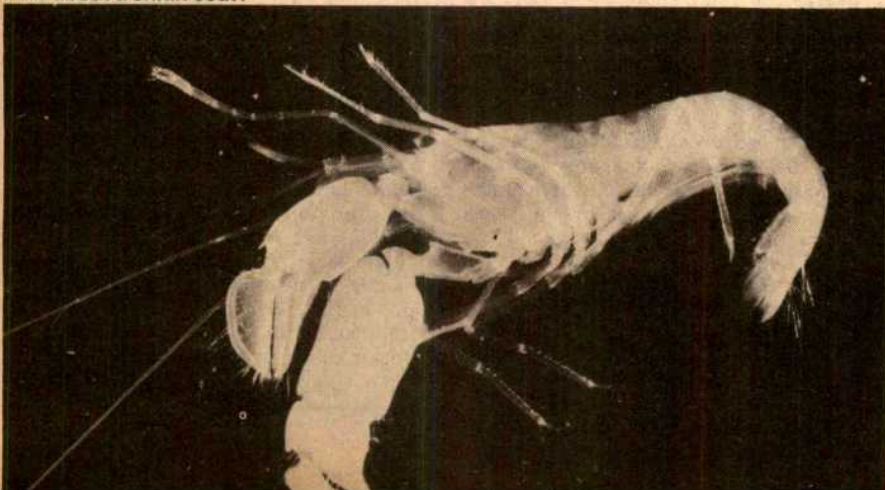
● **Waste treatment.** The long chitosan molecules can wrap themselves around particles suspended in water to form agglomerates. And because it is non-toxic (unlike many of its synthetic equivalents), chitin can be used to convert vegetable wastes into useful products which, higher up the food chain, can finish up being eaten by people. In the United States, the Food and Drug Administration has now granted permission for chitosan to be used for processing waste in this way. At least two American companies, Bioshell and Marine Research Corporation, are known to be interested.

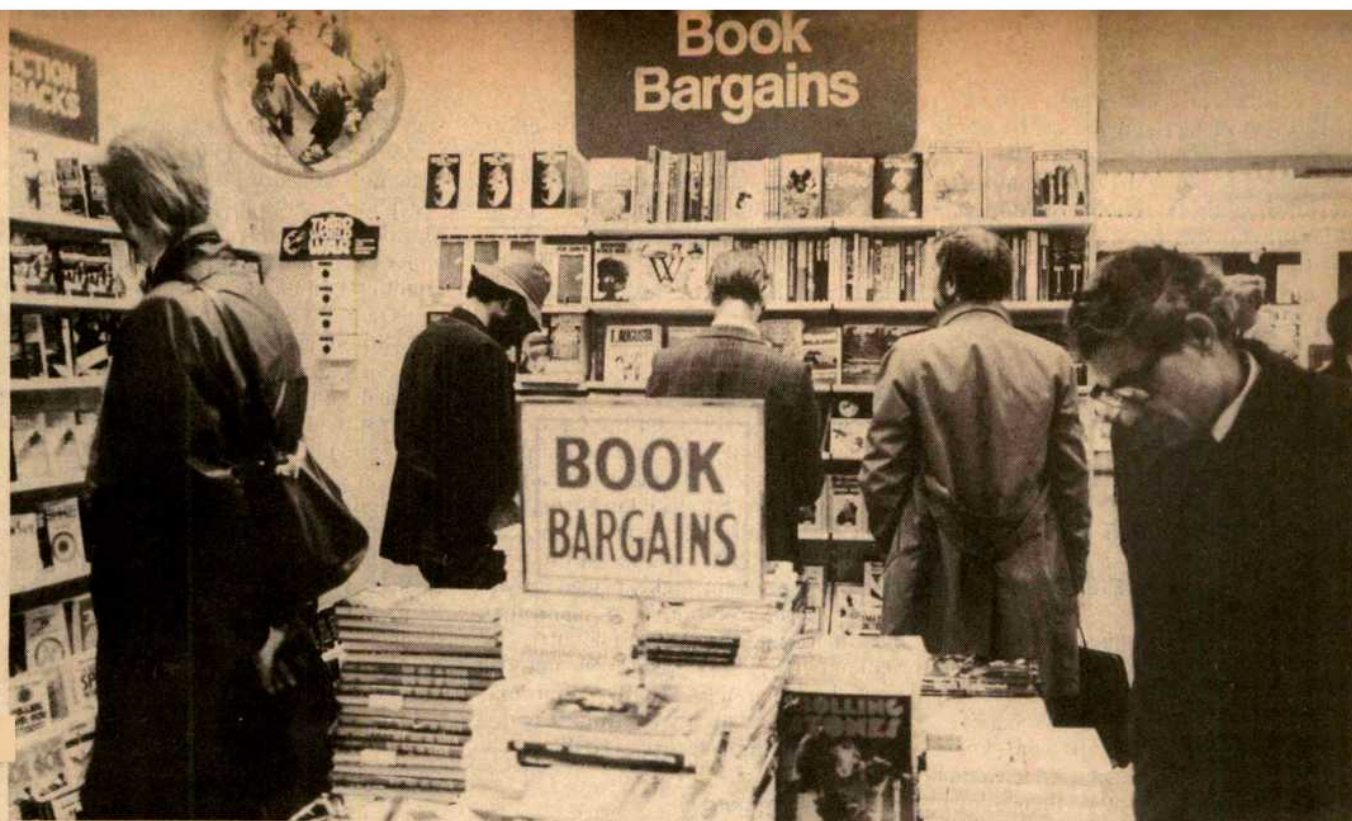
Other processes for treating waste take advantage of the nitrogen atoms, which dangle off each link in the main chitosan polymer chain, to collect and trap metal atoms. One such metal that can be harvested from waste this way is uranium. As the cost of synthetic ion-exchange resins continues to increase, British Nuclear Fuels is looking to chitosan as an alternative means of extracting valuable metals from spent fuel.

At present, Japan is the main commercial consumer of chitin. It currently uses some 300 tonnes annually—but only for treating waste. The big problem inhibiting wider use of chitin in industry is, oddly enough, finding a cheap enough supply of chitin with uniform properties. Comparison with cellulose reveals why. Cellulose is easy to obtain: just chop down a forest.

Not so chitin. Save for the silkworm, insects are expensive to harvest. Even a cockroach factory in Costa Rica—home of many fearsome-sized insects—would not be competitive enough. Microscopic algae such as diatoms, which possess tails of pure chitin, look more attractive. Another good bet is the fungal waste of fermentation processes used to make organic acids, drugs and enzymes. At present, the most economically viable source of chitin appears to be crustaceans such as crabs, shrimps and prawns. One interesting new source of chitin—and an odd by-product of commercial greed—is krill, which has become more plentiful now man has hunted the great whales to the verge of extinction.

How about a chitin coat?





SUMMER BOOKS

Scanned any good books lately?

Are books in the United States too expensive? Consumers must think so, for 39% of all hardbacks are sold at a discount. Booksellers do not like it. They face shrinking margins, greater demands on their capital for stocking computer software and other non-book items, and competition from discounters. Publishers, recovering from a two-year slump, would like to continue to get full prices for their books, but chains already get 45-50% discounts on the retail price.

The "mom-and-pop" shops, which still sell publishers' backlists and make up the backbone of the industry, now need the discounts, too. The American Booksellers Association allows a small shop to qualify for bulk-order discounts, many of which are being passed on to customers. The shops have more hope than confidence that they will be able to make up in volume what they lose in unit profits.

The American book trade (like Broadway, in Brooks Atkinson's famous phrase) is an easier place in which to make a fortune than to make a living. The fortune-makers have been the large chains, like Waldenbooks, part of Carter Hawley Hale (the big department store

group owning Neiman-Marcus, Bergdorf Goodman, the Broadway chain and many others), and the 700-outlet strong B. Dalton shops. Between them, the chains ring up 30% of all book sales.

Publishers have been thriving by tapping successfully into America's fads and producing books out of them (hastily written biographies of pop or sports stars, for instance). New-found prosperity has also allowed the publishers to branch out into new electronic media, with everything from books on computer software to software itself.

McGraw Hill is bringing out 200 software books, while pioneers like Houghton Mifflin are putting their dictionaries on "diskettes" for checking spelling and finding synonyms. Software books, however, are a chancy game since publishers are forced to back the hardware they support.

Textbook publishers look to a new baby bulge from 1985, when the children of the previous baby boom get to school age—to be met by a new generation of teaching tools, including study guides on disc. If publishers now find an ally in technology where once there seemed a

competitor, it is part of a new-found confidence, born not so much of profits from software as from the drop in paperback advances. The largest paperback advance of 1983 was \$1.2m for Judith Rossner's "August", compared with E. L. Doctorow's \$1.85m for "Ragtime" in 1975 and \$2.25m for John Irving's "Hotel New Hampshire" two years ago.

In Britain, the notion of an electronic book trade is becoming as hot a topic as in America. On the marketing side, the bigger book stores have already moved successfully into selling computers. Smaller shops, however, have until now been unable to invest in equipment for their own use because of the high cost of the hardware.

Enter Project '84, a £110,000 scheme to encourage smaller firms to try out 25 teleordering systems and 10 viewdata terminals. Electronic equipment will certainly increase efficiency, should speed up sales and might raise profits.

Leading British publishers—like Penguin, OUP, Chatto, Hodder, Collins, Granada and Thomson Books—are all prepared to pump cash into Project '84. It is in their interests, as well, that booksellers have better, faster, more accurate information about stock levels and demand for individual titles. It takes the guesswork out of print runs.

It also means more money. It has been calculated that, at any one time, there is

SUMMER BOOKS

about £17m of inert money in the book trade—money spent on books that will eventually be returned to the publishers and which could be spent on taking and selling other books.

With, at the moment, about 370,000

books looking for room in booksellers' shops, the adoption of a national system of teleordering and on-tap knowledge of daily stock movement should help both publishers and retailers to get that £17m circulating faster.

MEMOIRS

Eyewitness report

WAR DIARIES: Politics and War in the Mediterranean,

January 1943-May 1945

By Harold Macmillan.

Macmillan. 804 pages. £18.50.

These jottings, fresh as the days on which they were written, are both a gold mine for historians and a delight to readers who like to watch great events as they happen. Lord Stockton—as nobody who knew him in politics will ever get used to calling Harold Macmillan—noted them down nightly for his wife, when he was British minister-resident in the western and central Mediterranean towards the end of the second world war. They were sent to Lady Dorothy by safe hand, whenever a chance offered, and she kept them. Once he had formed the habit of diary-writing, he kept it up even when she was with him. The results make excellent reading, and form a detailed record of two and a half eventful years.

He has taken care not to apply hindsight; this makes some of the judgments he made at the time all the more striking. Churchill was clearly an almost impossible master under whom to work; yet all agreed that without Churchill's magic touch, the war could not be won. There is plenty of domestic detail: even at the topmost command level, life was bedevilled by lack of food, lack of furniture, missed appointments, defective aircraft, too much cold, too much heat, too much discomfort. Frequent baths in an almost too warm sea were the main recreation.

This book will do much to enhance Field-Marshal Alexander's reputation, a little to enhance de Gaulle's, and nothing for General Giraud's. It is presciently critical of the Greek national liberation front (EAM), to which the press of the free world was greatly attached in the autumn of 1944, before it became clear that EAM was a front for the Greek communist party. Siantos, that party's acting secretary, turned out to be "a nasty rat-faced man" when he surfaced in Athens on Boxing Day.

There are new insights on the growth of de Gaulle's committee of national liberation in Algiers, on the sublime muddle of the secret Italian armistice talks of Au-

gust-September, 1943, on the Greek and the Yugoslav civil wars, and on the problems of running the Anglo-American alliance. Historians enjoy making everything seem clear, and making ministers seem purposeful, after the event. At the time, as this exceptionally highly placed eyewitness suggests, even ministers spend their lives in a muddle. A typical entry (for September 7, 1943) reads "A mass of excited telegrams—usually contradictory—continue to arrive from London and Washington. We do our best."

Battle scarred

CAVEAT

By Alexander M. Haig.

Weidenfeld and Nicolson. 367 pages.

£12.95.

Statesmen's memoirs are often essays in self-justification. As such, General Haig's are more successful than most. For he has a historic injustice to correct. With most of the qualities to make a good secretary of state, he was defeated by the presidential system of government—or lack of it—and the clash of temperaments between himself and the president.

The task of repacking the rag-bag of strong prejudices with which Ronald Reagan came to the White House into the

semblance of a foreign policy was not an easy one. General Haig set about it with immense industry, a sense of military discipline and loyalty, considerable knowledge of foreign affairs and his Nato experience in dealing with them. These qualities complemented President Reagan's populist appeal and indolent charm. But without either a personal relationship with Mr Reagan or a degree of tact and political subtlety, for which a military career provided no training, the combination could not work.

As a result General Haig never achieved the single voice of American foreign policy which he constantly sought from the president. There were repeated clashes with Caspar Weinberger at the Pentagon, with the National Security Council, and with Mrs Jeane Kirkpatrick during the Falklands negotiations. Of the latter, Haig remarks in a footnote

She was merely acting in accordance with the rules of the system, which had at its heart the evidently irresistible desire to save the president's popularity even if this meant undermining the president's policies.

It is to these populist instincts among the president's personal advisers that the former secretary of state attributes the constant leaks to a press eager for fresh disclosures of the Watergate variety. They eventually made his position impossible. He was forced to resign at the height of the Lebanon crisis.

In a lively account—blessedly free from the jargon of "Haigspeak"—of the many issues of his 18-month tenure he effectively refutes the charge of trying to usurp the president's foreign policy functions. The "caveat" which he issues is against the system that has reduced all secretaries of state since Watergate to ineffectiveness. His record throws light on some of the darker corners of the American administration and some of the obstacles to a coherent foreign policy in the Atlantic alliance.

Solitude and society

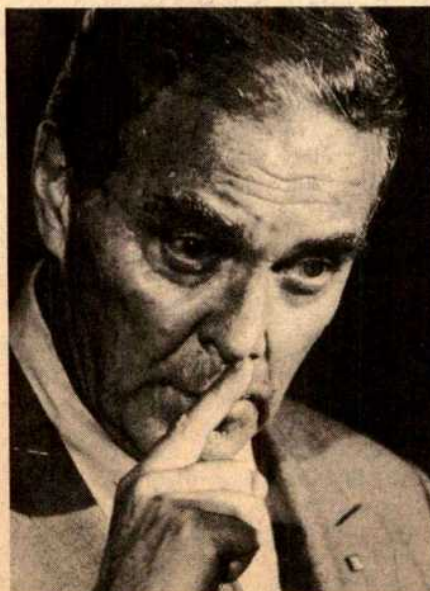
THE DIARY OF VIRGINIA WOOLF:

Volume V, 1936-1941

Edited by Anne Olivier Bell.

Hogarth Press. 402 pages. £17.50.

The last volume of this splendid diary maintains a striking uniformity of style and attitude over a period of varied and often tragic events. To some extent this is because Virginia Woolf stopped writing it when things were at their worst. She was always plunged in depression when she had finished a major work, and "The Years" was the most traumatic of all; after it, she wrote nothing for months in her diary. But it brought her happiness when circumstances were favourable and



I must be discreet; I must be discreet; I...

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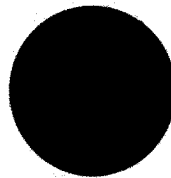
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a means of coping with lesser miseries.

For most of this period, despite the death of her nephew Julian and its appalling effects on his mother, her much loved sister Vanessa Bell, she seems to have been happy, though constantly riven by "the usual fight between solitude and society".

The main impression is of enormous vitality. How could anybody have read so much, written so much, and seen so many people? She faced the war with remarkable aplomb and no self-pity. Two London houses were destroyed, requiring a retreat to the country cottage in Sussex, which was no safe haven during the Battle of Britain. Virginia's chief worry there was about housekeeping and the boredom of village society, largely cut off from her customary friends. Her last book, "Between the Acts", seems to have been a pleasure to write, with the usual crisis occurring only during her final breakdown, which was sudden and short. On March 4, 1941, a normal diary entry ending "Now to cook the haddock"; silence for three weeks; a short and strained entry on March 24th; four days later she drowned herself. In this fifth and final volume, Mrs Bell's editing, as always, is impeccable.

Out of focus

THE HAUNTED MIND

By Hallam Tennyson.

Andre Deutsch. 238 pages. £12.95.

Hallam Tennyson was born into the intellectual purple. The great-grandson of the laureate, he seems to have suffered little from the "black bloodedness" of the Tennysons, and less from ancestor worship. It is a nice touch that he takes his chapter epigraphs not from Tennyson but Wordsworth.

Mr Tennyson's would seem to have been a fulfilling, as well as unconventional, life. The uncharacteristic Etonian became a conscientious objector in the war, serving in both Egypt and Italy with the Friends Ambulance Unit. After the war, he and his wife worked in the Bengal countryside for two years, an episode both vividly and movingly described. Then came a long stint at the BBC.

But the book is less a description of a career than a character, and in particular a consideration of the author's sexuality. As a young man Mr Tennyson was attracted physically to men but emotionally to women. His marriage lasted 25 years, and it was only after its break up, as he sardonically describes it, that he fully assumed his homosexuality. In this autobiography, Mr Tennyson writes with characteristically self-deprecating candour, but never quite brings himself into focus.

BIOGRAPHIES

Coping with Zelda

F. SCOTT FITZGERALD: A Biography

By André Le Vot.

Allen Lane. 392 pages. £14.95.

"It will take more than the Pope to make Zelda good", Mrs Sayre wrote to her daughter's fiancé. "You will have to call on God Almighty direct." God's representative shared her view. Not until 1975 did a liberal-minded Bishop of Baltimore allow the Fitzgeralds to be buried together in a Catholic cemetery, 27 years after Zelda's death by fire in a mental hospital, 35 years after Scott collapsed with a heart attack in front of his mistress, Miss Sheila Graham.

The church and Mrs Sayre disapproved. The world was—and still is—fascinated by the dazzling exhibitionism of these star attractions of the jazz age, who courted disaster with madcap glee and a frightening indifference to death. Walls and balconies were there to be jumped off, cliff-hanging corners to be driven at, fast, while lighting a cigarette. As Zelda airily said, "We don't believe in conservation."

André Le Vot, who has spent 20 years preparing this book, gives a sympathetic, but balanced, portrait of the Fitzgeralds at their worst and best. Against the inglorious spectacle of Scott growling on all fours at restaurant commissionaires and kicking over the tray of an old woman selling cigarettes, he places the chivalry, the courtesy, the ready help and support given to fellow-writers. If he has little time for Zelda's high flights of prose, he has much for her ill-fated dancing ambitions. She wanted to be "Pavlova, nothing less". She was offered nothing grander than to dance the shimmy at the Folies-Bergère. Emphasising the dignity with which she performed her maddest acts, he shows how her excesses became a convincing mask for insanity. Nothing is more entertaining than elegantly crazy behaviour until it is seen as the behaviour of the crazed.

Matthew Brucoli's biography of Fitzgerald left little of his life undiscovered. Professor Le Vot is less of a chronicler, more of an analyst. He concentrates, rewardingly, on particular areas, the breakdown of the marriage, the relationship with Hemingway, so graceless in his returns for the friendship and advice Fitzgerald offered when he most needed it, and the long, sad exile in Hollywood.

Fitzgerald's was a love-hate relationship with Hollywood, fuelled by financial need. He had two unsuccessful brushes



Jazz babies both

with the film world in 1927 and 1931, when screenplays were to be made of "Tender is the Night". In 1935, he flatly refused to make a third try, declaring: "I hate the place like poison". Yet in 1937, he was full of jubilation at the prospect of travelling west on the appropriately named Argonaut train to become a hired hack.

It was not, in any way, a happy venture. Humiliated, unsuccessful and almost forgotten, Fitzgerald showed remarkable courage when he made mock of his own degradation in the Pat Hobby stories. As in "The Crack-Up", he showed his genius for turning failure into art. Indeed, the only time Fitzgerald tried to portray the life of a successful man, in "Philippe", he failed miserably.

The analyses of the novels are, as one might expect from a French scholar, discriminating and perceptive. Professor Le Vot's pet hobby-horse is Fitzgerald's use of colours to relate his characters to their social context. Fanciful though this sounds, he makes a convincing case for seeing colour as a matter of careful design rather than random choice in "The Great Gatsby".

Sceptics may feel that he goes a bit too far in relating that novel to ragtime rhythm, with "hyperactive yellows" tripping over a base of blue. They may

wonder, too, whether the growing of a moustache and a polite murmur of admiration for the master's works provide much of a case for linking Fitzgerald to Henry James. Professor Le Vot's enthusiasm runs away with him.

Quibbles apart, the book offers a readable account of Fitzgerald's courage and perseverance in a life of daily despair and increasing financial strain. To have written "The Great Gatsby" while coping with Zelda's antics, flirtations and collapses was a miracle of determination.

Strangely resilient

DOSTOEVSKY: The Years of Ordeal

By Joseph Frank.

Robson Books. 320 pages. £14.95.

Dostoevsky was arrested in the early hours of April 23, 1849, along with the other members of the allegedly revolutionary Petrashevsky Circle. He was in his late twenties, socially insecure, neurotically vain, a young novelist widely regarded as having at first been overpraised and later as having written a small talent out.

During the next decade, there followed solitary confinement, the sadistic mock-execution on the Semenovskiy Square, penal servitude and subsequent service in the ranks of a line battalion of a Siberian regiment (before his commission, in itself rehabilitation, in 1856). To those, Dostoevsky added marriage to a disastrously incompatible woman. All this might have broken a more stable man.

One of the reasons that makes Mr Joseph Frank's masterly biography such fascinating reading is the picture of a Dostoevsky of uncommon, unexpected resilience. Certainly his ideas changed, although neither so abruptly nor entirely as he (and most of his biographers) have

liked to claim. His socialism had always been utopian, in the sense of the French socialists he had admired, a vision of a world of perfect harmony and social justice. But it had also been essentially Russian, stemming in particular from his hatred of serfdom, the complex sense of guilt Mr Frank so well explores, but directed towards the Russian peasant and not, as Freud presumed, towards the Russian tsar.

This guilt was reinforced by his initial horror, in the labour camp, of the mass of peasant convicts, his naive, but shattering, amazement at their instinctive rejection of the entire gentry class.

Both guilt and chauvinism came together in the rediscovery of an orthodoxy that had always owed more to folk magic than dogma. For Dostoevsky, the Russian peasant—and the Russian peasant alone—was the vehicle of a spontaneous emancipation of the serfs. Dostoevsky's brand of chauvinism might seem exaggerated: but it was the reflection of a widely shared new pride in Russianness. The tragedy was that, as so often in Russian history, both euphoria and unanimity were to be so short-lived.

A father's son

EDMUND GOSSE: A Literary Landscape 1848-1928

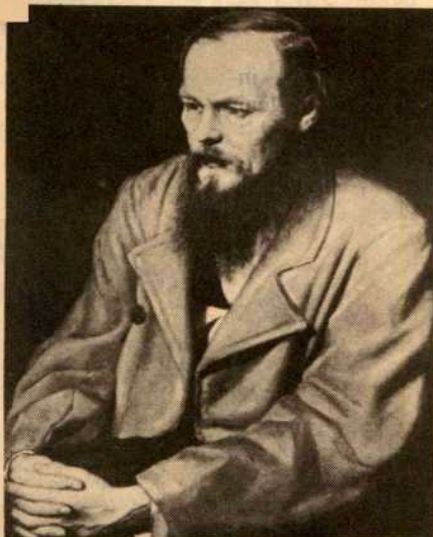
By Ann Thwaite.

Secker and Warburg. 567 pages. £15.

Were it not for "Father and Son", Edmund Gosse would not rate a biography as diligent, dedicated, skilled and lengthy as Mrs Ann Thwaite's. But were it not for the extraordinary childhood evoked in that autobiographical masterpiece, Gosse would not, by his own assiduous, if often careless, dedication to his craft, have become "the official British man of letters" for so many years, until, in his old age, he suffered, though hardly earned, the contempt of T. S. Eliot and Virginia Woolf. The phrase is by H. G. Wells, one of Gosse's many admirers.

Gosse's friends and acquaintances make a rich feast, almost to the point of saturation. They give Mrs Thwaite an opportunity to set out her "literary landscape"—an opportunity on which, thanks to the bulging archives, she does not fail to capitalise. Here are to be found, to take just some examples, Ibsen, Browning, Tennyson, Swinburne, Hardy, James, Gide . . . and so on and on up the slopes of Parnassus.

Gosse needed friends. His need made him a crony of the literary, a sycophant of the lonely. It also made him a brilliant conversationalist, flattering at one moment, feline at another. Mrs Thwaite captures the essence of this gregarious



Dostoevsky—a Myshkin in the making

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man in her second paragraph:

Edmund Gosse spent a good deal of his life making himself feel loved, wanted, admired, appreciated. He needed an audience and applause as much as any actor. He was impatient of solitude and afraid of it. It was as if he needed to make up for the long quiet hours he remembered, without playmates or stories, his face pressed against the window to catch whatever glimpses he could of a racier world.

Gosse extended that world. He took to it and it took to him. But within the man of talent and minor fame there always lurked the lonely little boy. Behind the boy loomed the father, the natural scientist and Plymouth Brother—a living contradiction of faith and reason.

Mrs Thwaite has unearthed some new material on Gosse's childhood: he was not, for example, quite as lonely as he made out. But, oddly, she does not explain why, having written a biography of his father and having been then prompted by J. A. Symonds and George Moore to consider writing his autobiography, Gosse let the years slip by before suddenly writing the one book that will keep his name alive. "Father and Son" was a book Gosse had to write: but even Mrs Thwaite cannot explain what stirred in his middle-aged psyche to make him write it when he did. And why a journeyman of letters became, for once and for once only, a master.

Power behind the chair

THE WHITE BONED DEMON: A Biography of Madame Mao Zedong
By Ross Terrill.

William Heinemann. 416 pages. £16.

There is no reason why a third-rate actress should necessarily be accorded a third-rate biography. Jiang Qing, who became the wife of China's chairman, Mao Zedong, and a powerful political figure in her own right, deserved better. Jiang began her career on the Shanghai stage, but later helped direct China's cultural revolution and came close to succeeding Mao in 1976. She was, as the present author and others have shown, a malicious and devious political infighter. Some day a biographer will do her justice.

Mr Terrill ignores the big picture. He is obsessed with the "bitch-goddess" Jiang, and how she supposedly slept her way to power by manipulating the man that one disgruntled communist party official once called her "sex maniac" husband. That can sustain the narrative a short way, but not on the long march through 416 pages. The Jiang that emerges in this version is driven by the desire for revenge against those Chinese communist party leaders who allowed her and Mao to marry only if madame would be kept out of politics.

Thus, "the Party rules the bedroom", because Mao was in the tradition of Chinese history in which "most peasant rebellion leaders had strong sex drives".

By presenting China's politicians and their ideological inclinations in this petty way, Mr Terrill reduces Chinese politics to a narrow struggle for power. He ignores Mao's revolutionary goals and the policy disputes that pitted Jiang against more conservative and less xenophobic Chinese leaders. In their place, is Jiang's peculiar diet, her affair with a table tennis star, and the senile Mao's supposed lust

for a train conductress.

This tawdry tale of Jiang's career and Chinese politics claims to make use of vast untapped sources of information on contemporary China. Mr Terrill is so confident that he offers direct quotations of politburo sessions and clandestine discussions. Unfortunately for the more meticulous historian, these turn out to be "confidential" (and therefore uncheckable) sources, Taiwan tittle-tattle and Hongkong gossip. Mr Terrill offers no guidance on what can be taken at face value. Very little, probably.

POLITICS

Slow boat to China

ALL CHANGE HONG KONG

By Robert Adley.

Blandford Press. 128 pages.

£6.95 (paperback).



Still time to make a fortune or two

Mr Robert Adley, the Conservative member of parliament for Christchurch, is also chairman of the British-Chinese parliamentary group. He revels, not least in this book, in the ill-tempered (he reckons officially-inspired) criticism he draws in the colony for his outspoken views—outspoken, that is, by the Hongkong establishment's lights. He over-colours himself, however, as a wicked uncle. A strict one, maybe, voicing opinions the family would rather were left unsaid, but ones that need saying all the same.

The impression that persists from this book is that he is more China's friend

than Hongkong's. His interest in Hongkong is well established; he has long been a critic of the slow development, he would say lack, of democratic institutions there—a theme he espoused long before it recently became fashionable. It looms large in this book, to which he adds the gloss that the entrenchment of such institutions well before 1997 is Hongkong's best guarantee for its future after it reverts to China.

It is a theme he also addressed during the house of commons debate on the future of Hongkong on May 16th. His advice to the British foreign secretary was to ensure that demands in Hongkong for constitutional change could not be blocked or stopped by the local government. Its plans gradually to expand its existing executive and legislative councils do not, Mr Adley believes, extend far enough; it is up to Britain to make the Hongkong government go further.

For all its chatty style and lack of many firm conclusions about the future, this book is unlikely to win Mr Adley new friends in Hongkong government circles. That, though, may not be where they are needed now.

Far from salvation

WEAKNESS AND DECEIT: US Policy and El Salvador

By Raymond Bonner.

Times Books. 407 pages. \$16.95.

Does President José Napoleon Duarte of El Salvador have a chance of eradicating his country's right-wing death squads? The picture of El Salvador drawn by Mr Raymond Bonner, a New York Times correspondent, suggests that it is a slim one. Thousands of murders, some carried out with sickening sadism, have gone unpunished; many of the killers and their paymasters have simply been transferred out of their old jobs.

Much of Mr Bonner's book is given

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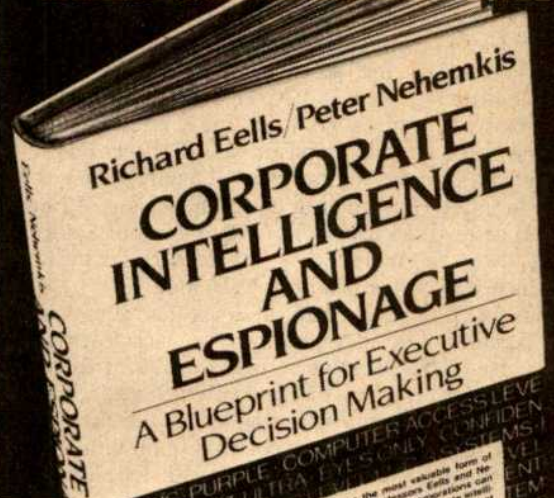
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over to the carnage and the connivance of the Salvadorean authorities and the American government under Presidents Carter and Reagan. It is marred by being so unremittingly critical that it verges on intolerance.

Mr Bonner points to the occasions when the American administration has put an optimistic gloss on what was happening. But he never puts himself in the shoes of American strategists, whom he regards as, at best, the weak and deceitful retailers of half-truths.

Would it have been better if congress had cut off, or much reduced, American military aid and given the Marxist guerrillas a good chance of winning? That might easily have happened if the administration had painted the scene in the stark colours used by Mr Bonner. Looked at another way, was there any guarantee that human rights would have been better respected if American aid was cut?

Neighbouring Guatemala, which receives virtually no aid, is notorious for its death squads. And has not the administration's policy, warts and all, produced a free election of a committed, reformist democrat?

Mr Bonner's vivid report needs less anger and more analysis. But his main points are tellingly made. The administration could have pressed harder for greater respect for human rights. And the Salvadorean army is a power unto itself, which has often shrugged off the demands that were made, knowing that, in the final analysis, Ronald Reagan would never let the Marxist rebels win. The army did keep out of the presidential election (it was preoccupied with the civil war) and it may be becoming more professional and less political. But Mr Duarte is still a long way from imposing civilian control on it. Only when he has done so will he be able to eradicate the death squads.

Old wisdom

THE NEW DIPLOMACY

By Abba Eban.
Weidenfeld and Nicolson.
427 pages. £15.

The subtitle—International Affairs in the Modern Age—gives a better idea of the scope of this book than the title. The new diplomacy is indeed dealt with in an excellent final section, which ranges from the negotiating habits of the ancient Chinese and Greeks, through the origins of the modern ambassador in renaissance Italy, to his frustrations in the age of jet, shuttle and summit diplomacy.

The voluble Mr Eban draws on his experience as a former Israeli foreign minister and ambassador to Washington to prepare for this *tour de force* with a

tour d'horizon. He takes in the roles of America and Russia in world politics, the new Europe and the third world, the myth and reality of international organisations and the impact of the nuclear age.

His handling of the unending conflict in the Middle East reflects the most enlightened Israeli point of view. It is naturally controversial, as when he writes of Nasser "Nothing has divided the Arab world more than the attempt to unite it. . . . The Arab states unite for rhetoric but divide for action."

Mr Eban's judgments on personalities and policies have a similar lapidary character. For example, he says of John Foster Dulles "He brought an excessively subtle mind into the service of an excessively simplistic view of the world order." And of President Kennedy "The mechanical applications of the lessons of European history to remote areas of South-East Asia led to . . . America's greatest international error, Vietnam."

Mr Eban observes that domestic politics have brought "a staccato rhythm of discontinuity into the recent diplomatic history of the United States", while no recent American leader has succeeded in bringing the country's international interests into harmony with its public sentiment. And when the United States has

weakened a pro-western dictatorship, the result has tended to be not democracy but an anti-western despotism.

The paradox of Russia is that of "a country with a cosmopolitan ideology and multi-national structure displaying an intense and vehement sense of national particularity". The result is a combination of siege mentality with a sweeping audacity beyond the walls. "The Cuban missile crisis", writes Mr Eban, "illustrates both the audacity with which the Soviet leaders can advance to the brink and the lack of shamefacedness with which they draw back." The best case for detente is that "no party seems to be gaining from its eclipse".

The author sees the European community, like the Atlantic alliance, as the victim of its successes, not its failures, while Israel's predicaments are those of victory rather than defeat. His judgments on the United Nations are severe, but well-reasoned. Conference diplomacy seen as suffering from the tension between parliamentary and diplomatic principles, which makes the voting habit the greatest enemy of the United Nations system. The United Nations, he argues, must decide whether it wants to be an instrument for solving conflicts or an arena for waging them.

HISTORY

Ordered horrors

JUSTICE AT NUREMBERG

By Robert E. Conot.
Weidenfeld and Nicolson. 593 pages.
£15.

THE NUREMBERG TRIAL

By Ann Tusa and John Tusa.
Macmillan. 519 pages. £12.95.

When Hitler's Reich collapsed in 1945, a cascade of horror stories tumbled out of it; far more, and far more frightful, than easy-going British or Americans had foreseen. The surviving Nazi leaders—Hitler, Himmler and Goebbels killed themselves, Bormann had vanished—were put on trial at Nuremberg before an international court. Here a great many more horrors came to light: revealed through official orders and reports, signed by and made to the men on trial.

Before justice could be done, Goering managed to evade a death sentence by suicide; 10 of his colleagues in the dock were hanged; three were let free. The others served wartime sentences; the wraith in Spandau, who may be Hess, has yet to be released.

Ann and John Tusa have written a



Goering anticipated the noose

sound and striking account of this great trial, based partly on its record—which runs to 42 volumes—and partly on the British archives, which are revealing. They have used interviews and newspapers as well, but sparingly. They have taken care to learn enough law to understand the trial's place in the development of international law. Even when faced

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with rodomontade or gibberish, they remain clear and easy to read.

It is bad luck for Robert E. Conot that his still longer book on the same subject, based mainly on interviews, supported by the trial transcript and some American archives, covers the ground less well. He seldom resists the sentimental or sensational story; a much weaker book results. It matters that those in power, wherever they hold it, remember Nuremberg, and recall that, one day, they may have to answer in court for any atrocity they allow.

Will ye no . . . ?

STRATEGY AND DIPLOMACY 1870-1945

By Paul Kennedy.

Allen and Unwin. 254 pages. £15
(Fontana paperback £3.95).

When Professor Paul Kennedy departed last year for Yale, Britain lost one of its most exciting historians of international affairs. Just how great the loss was is made evident by the publication of "Strategy and Diplomacy", a collection of eight essays on the large themes that Professor Kennedy has made his own: the connections between economic and political power, the strategic role of sea power and the causes and consequences of antagonisms between nations. The essays all deal, manifestly, with the past; but latent in most of them are ideas with implications for the present and future.

For example, the author asks whether, historically, arms races have been a major cause of wars. He concludes that they have not. No arms race between 1870 and 1945 led of its own accord to war, and rarely has one even contributed in any important way to precipitating a war. (Professor Kennedy notes in passing that, in the recent Falklands affair, it was probably Britain's decision actually to

reduce its military capabilities that brought about the Argentine invasion.)

A number of arms races, worrying at the time, have either petered out or else been brought under control by politicians determined to see the other side's point of view and willing to make concessions. Professor Kennedy cites, among other instances, the arms race involving most of the major European powers in the late 1880s and early 1890s; the naval race between Britain on the one hand and France and Russia on the other between 1884 and 1904-05; and the Anglo-American battleship race at the beginning of the 1920s, and the incipient rivalry of both those powers with Japan, that were controlled, if not permanently eliminated, by the Washington treaties of 1921-22. Antagonisms between nations, he suggests, often lead to increased armaments and less often, fortunately, to wars; but both of the latter phenomena are consequences of the former, and arms races dangerous only (though it is a big only) they serve to increase fear, insecurity and antagonism between the competing parties.

The author manifests the same determination to relate historical detail to large, and permanent, issues in essays on the "appeasement tradition" in British foreign policy and on the tensions that arose as early as the 1860s between Britain's industrial base, which was already declining relative to other countries, and successive governments' determination to sustain worldwide defence and foreign-policy commitments (conflict between the treasury and the defence departments goes back a long way). Like all self-respecting historians, Professor Kennedy refuses to play the game of drawing lessons from the past. His readers, less inhibited, are likely to find their thinking about current problems profoundly influenced by historical essays as wide-ranging and thoughtful as these.

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Computing manifesto

THE FIFTH GENERATION

By Edward A. Feigenbaum and
Pamela McCorduck.

Michael Joseph. 275 pages. £9.95.

When Americans start talking about "manifest destiny", lesser breeds are well advised to get out of the way. Here is the imperialist philosophy of the nineteenth-century frontier being applied to the realm of high technology. Mr Feigenbaum and Miss McCorduck make no bones about their belief that the United

States must hold and retain world leadership in computers. They see this leadership as a necessity for national defence, a pre-condition of America's continuing economic predominance, and as the means of bringing the full benefits of American civilisation to the rest of the world.

Their views will be influential within the United States. Mr Feigenbaum has been a world leader in the development of effective artificial intelligence (AI) techniques and the most successful publicist for their commercial application. Miss McCorduck is an able journalist who

has been writing about AI since 1960, (a lot longer than most computer scientists have been paying it any attention). Between them they have produced a lively, informative and provocative book.

The three main ideas which "The Fifth Generation" aims to put across are: that the future applications of AI will be of major importance; that Japan threatens to take the lead in them thanks to its "fifth generation" research programme; and that the United States should respond by taking action on a national scale.

Points like these have become almost part of the conventional wisdom since Japan first shook the west by announcing its "fifth generation" project in 1982. So why do they have such a chilly ring when expressed in Mr Feigenbaum and Miss McCorduck's brisk and bouncy prose?

Partly because this book is clearly the manifesto of the computing tendency.

Artificial intelligence is presented as the fittest destiny of computing, but more important, though less explicitly, computing is seen as the manifest destiny of society. There is barely a pause for thought about the social earthquakes that will follow when AI emerges from Mr Feigenbaum's laboratory. The main concern appears to be whether it will remake society in the image of California or of Tokyo, not whether society might prefer to have other ideas.

Ring the Lutine bell

LLOYD'S OF LONDON: A portrait

By Hugh Cockerell.

Woodhead-Faulkner. 157 pages.
£12.50.

One of the most difficult and dangerous topics for any business writer today is Lloyd's of London—explaining the intricacies of reinsurance and the complex life of Lloyd's without baffling or boring the layman and tackling the sub-

ject of abuses and self-regulation in a critical way without running smack into Britain's libel laws. (Last week, Mr Godfrey Hodgson's book "Lloyd's of London: A Reputation at Risk" was the subject of an injunction because of an alleged libel.)

Mr Hugh Cockerell has sensibly decided that the subject in this portrait will not sit still and outlines only some of the recent and current scandals, eg, the alleged looting of \$55m from the Minet syndicates by two underwriters. He takes the reader through some familiar and not so familiar history of Lloyd's, clearly explaining how the market works. But this book is more than just a lucid, sometimes amusing, history of Lloyd's. The author is highly critical of how Lloyd's has been run in the past.

He accuses Lloyd's of what he calls the British disease—apathy towards change until change is forced upon it. Certainly, Lloyd's did not want the 1979 inquiry under Sir Henry Fisher—a public examination of the clubby, secretive way it operated. It has the best intelligence system in the world providing information to the market, yet until 1982, it had a rule which forbade any Lloyd's member to speak to outsiders (ie, the press) on pain of expulsion. It was only the then ruling committee's mishandling of the Savonita affair, an alleged fraud on Lloyd's, which prompted the setting up of the Fisher inquiry into self-regulation and led to the Lloyd's Act of 1982 and change.

The history of Lloyd's, as Mr Cockerell says, resounds with the banging of stable doors after the horse has bolted. With their new powers, can the self-regulators at Lloyd's keep all stable doors locked? Mr Cockerell is guardedly optimistic that the market will continue to flourish, but to do so, it must increase its vigilance in internal affairs and seek to anticipate, rather than react to, events. "Passivity", he says, "must give way to initiative."

Chapter of accidents at Lloyd's



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Spanish books

Thirdworldism

If all the paper that has been covered with nonsense about the "north-south conflict" were pulped, recycled and sold on behalf of third-world governments, they could all buy Exocet missiles. Too many pseudo-intellectuals, western and non-western alike, have seized on third-world themes as pegs on which to hang facile philippics and instant anti-Americanism. They have taught millions throughout the "developing" world to believe that *Euro-Yanqui* bogymen are responsible for most of what goes wrong in their countries.

As Carlos Rangel demonstrates in his book *El Tercermundismo*, they have also invented an ideology—"thirdworldism"—the basic principle of which seems to be: Since the consumer society has stifled the revolutionary ardour of western workers, we must rely on the problems and pressures of the third world to bring down capitalism. (This book is published by Monte Avila Editores, Apartado Postal 70712, Caracas 1071-A, Venezuela, at 50 bolivares, and is distributed in Europe by Hispalis Libros, Calle Nueva de San Francisco 21, Barcelona 2, price Pts 700.)

Like all human beings, people in the third world have a natural desire to find a simple explanation of their problems, preferably one that puts the blame on an easily recognisable baddie. Carlos Rangel shows how "thirdworldism" exploits both this desire and the almost oedipal hostility of many westerners to the civilisation that has nurtured them.

Mr Rangel calls Karl Marx as a witness against "thirdworldists" who assert that pre-colonial Africa and Asia were idyllic places (Marx welcomed the colonisation of those continents, where "communities had become rotten through caste distinctions and slavery"). And he wipes the floor with propagandists who allege that the developed west owes its prosperity to the exploitation, past or present, of dependent territories. On the same theme, the distinguished French journalist Jean-François Revel, who has contributed an admirable preface to *El Tercermundismo*, points out that although Russia is now the world's greatest colonial power, it is the most backward industrial state.

This is a lively, stimulating book, all the more significant for having been written in South America by an author who is tuned in to both third-world and western thinking. It deserves translation and an international distribution.

One repulsive component of the third-world atmosphere analysed by Carlos Rangel is racial, religious and cultural prejudice: verbal hostility to *Yanquis*, "Anglo-Saxons" and Jews, active discrimination against minorities like the

Kurds in Iraq and Iran, the Berbers in Algeria and the Indians in some Latin-American states. These minorities are apt to be oppressed by governments of "right" and "left" alike. *Me llamo Rigoberta Menchu*, edited by Elizabeth Burgos (Argos Vergara, Aragon 390, Barcelona 13; Pts 800; also published in French under the title *Moi, Rigoberta Menchu* by Gallimard, 5 rue Sebastien-Bottin, 75007 Paris; FF95), is a harrowing account by a 23-year-old Indian girl of her Maya community's efforts to survive in Guatemala.

In Guatemala and several other Latin American countries, most of the population are Indians. Yet as Miss Burgos, a South-American ethnologist, writes in her introduction, they are "deprived of the most elementary human rights and are being wiped out systematically in the name of progress", while power and wealth are concentrated in the hands of military chiefs, "feudal" landowners of European descent and complacent Catholic prelates.

Exasperated by years of oppression and by the authorities' confiscation of land it had painfully reclaimed from the jungle, Rigoberta Menchu's community decided, in the late 1970s, to fight back, using politics—it joined forces with other communities to set up clandestine organisations—and traditional weaponry—slings, snares and machetes. At community gatherings, some tribesmen told stories from the Old Testament, which they had learnt from a priest, and the Indians came to recognise themselves in the children of Israel and their oppressors in the Egyptians and Babylonians. But God was not on their side.

In eight months, three members of Miss Menchu's family were killed. In September, 1979, a unit of the Guatemalan army arrested a group of Indians, tortured them for several days, then doused them with petrol and burnt them alive in the presence of their relatives and friends. Among the victims was her brother. Four months later, in order to attract the attention of the outside world, several Indian leaders occupied the Spanish embassy in Guatemala City. During the ensuing police siege, the building was burnt down, and a Spanish diplomat and all the Indians died in the fire. One of the Indians was Miss Menchu's father. In April, 1980, her mother was captured by the army. After being raped and tortured, she was left in the jungle to die of exposure. Miss Menchu escaped into Mexico. In 1982, sympathisers took her to Paris, where she met Elisabeth Burgos.

Rigoberta Menchu's testimony simmers with hatred of Guatemala's rulers and with resentment against Spain's co-

lonial legacy. Yet her story is essentially that of her love for her closely-knit family and community, for her threatened culture, and for plants and animals, and she tells it in vivid Spanish (which she learnt at the age of 20) that is at once almost childlike and movingly mature.

The struggle of courageous people like Miss Menchu is frequently exploited by revolutionary movements, which then turn out to be as oppressive as the regimes they have overthrown. Cubans learnt this the hard way: 25 years ago, they helped Fidel Castro oust their dictator, hoping to establish democracy. Instead, they got another dictatorship.

Unlike most third-world leaders, Mr Castro has wiped out malnutrition and illiteracy; but the intellectual and human cost has been enormous, as Carlos Alberto Montaner shows in *Fidel Castro y la Revolución Cubana* (Editorial Playor, Santa Polonia 7, Madrid; Pts 600). Liter-



Castro the orator

acy has resulted in more efficient indoctrination, complete with its "newspeak" and "newthink", and in increased frustration. More than a million Cubans—one tenth of the population—are in exile. Suicide is a major cause of death, and Cuban jails house Latin America's largest number of political prisoners.

The economic picture is equally bleak, with earnings from sugar—Cuba's main source of income—being eaten up by a huge army (about 100,000 men) mostly engaged in troublemaking abroad. Mr Montaner blames Cuba's depressing fate not on the United States, nor even solely on communism, but on Mr Castro. His character-study of the guerrillero-turned-caudillo is withering: Mr Castro emerges from this book as viscerally anti-Yanqui, aggressive—while at university he shot a rival student leader in the stomach—and megalomaniac. And this, Mr Montaner sighs, is the man who for over two decades has been the idol of western thirdworlders.

Which way is down?

MICROECONOMIC EFFICIENCY AND MACROECONOMIC PERFORMANCE

Edited by David Shepherd, Jeremy Turk and Aubrey Silberston.

Philip Allan. 232 pages. £13.95.

Though written by seven hands, this is a coherent book, not a selection of articles. The editors have laboured to impose a structure on seven original essays on efficiency, whether in financial markets, international trade, or the provision of social services. According to the adage, with seven economists, there should be at least 14 points of view. There are not. There is one argument, and fewer than seven ideas to support it. Each author has strained to fit his thoughts into the editorial framework, has summarised, simplified and cut corners. The result is a book that for all the good sense its individual parts contain, is less than the sum of its parts.

The underlying argument is couched mainly in negatives. It is that so-called Pareto optimality (under which doctrine nobody can get richer without making somebody else poorer) is not necessarily the best criterion of success for a welfare economy. Economic efficiency is hard to define, and, if a broader than usual definition were adopted (one which comprehends the need for economic performance to adapt to prevailing social structures), Britain would not seem so hopelessly inefficient after all. Its macroeconomic performance in the past 20 years, though admittedly far worse than that of its principal competitors, has been good if viewed in the perspective of long-term domestic trends. From 1970 to 1980, gdp per head grew at 1.6% a year, in contrast to the 1.1% a year achieved from 1955-1913, usually regarded as a high growth period.

Looking beyond the growth rate, neither public expenditure nor taxation, expressed as a percentage of national income, has been far out of line with international comparators. The British price performance has, the authors concede, been worse than average, but, they ask, how important is this over the long haul? "Crisis, what crisis?" is their cry.

Seen in this light, the Thatcher government's policy is at best an overreaction to a minor inflationary problem, at worst an act of economic vandalism. Though productivity increases have been achieved, it will be some time before the lost output of 1979-82 is recovered. And if, as the authors presume, productivity and output trends revert to "normal", there will have been no offsetting long-term gains.

It is not an original view. And it is not persuasively put. Yet there are two plus

points. First, it is surely right that economists should afford themselves the luxury of a longer perspective and a broad view of social priorities. And, second, there are some straightforward, but sensible, observations on optimal tax and benefit structures. Unoriginal perhaps, but theoretical points that bear repetition and are often overlooked by governments and their economic servants. There is, for example, no self-evident case in favour of a uniform level of taxation on goods and services, as successive governments have claimed in support of Vat.

But the macroeconomic argument is unconvincing, and the suggested corrective policy prescriptions are tired, where they are not hopelessly ill-defined. The last essay, by Professor Reddaway of Cambridge, discusses a woolly form of incomes policy, governed by an annual "guiding light" pay norm, which "has

emerged from a process of consultation".

The central premise, that Britain had chosen a gentle relative economic decline, which Mrs Thatcher rudely interrupted, is hard to sustain. It is not evident that the British are happy to become steadily poorer than their European neighbours—particularly the French—or, indeed, that in an open trading environment, slow decline remains a feasible option. Increasing economic interdependence, and the pace of technological and industrial development, mean that changes in relative profitability and employment patterns can be dramatic. It may be that only in a closed, or heavily protected economy is it possible to choose slow relative decline. There is no evidence that the authors themselves favour autarchy, but it may be the price of such complacency in the face of a changing world.

OTHER BOOKS

Growth of a culture

THE OXFORD COMPANION TO AMERICAN LITERATURE

By James D. Hart.

OUP. 896 pages. £27.50.

Available from OUP, New York.

That enjoyable English cleric Sydney Smith sneaks into this book, as into so many others, by virtue of an outrageous remark. "In the four quarters of the globe", he asked, "who reads an American book?" A century later, H. L. Mencken was firmly convinced that soon the language of Englishmen would be "a kind of dialect of American". It has not happened yet, but on the evidence of this vast dictionary, the tide is running strongly.

Heterogeneity is the outstanding quality of this book. On one page are listed, for example, blacks in the United States, Blackbeard the Pirate and the Blackfoot Indians, none of them primarily noted for literature. The Blackfoots are not alone: think of an Indian and he is here, from the Arikari through to the Yamasee, and their leaders merit special attention. There are articles on Crazy Horse, Hiawatha, Pocahontas and Sitting Bull—the latter being "on the warpath almost continually".

The wonderfully varied contents of this companion make it quite different from its Oxford siblings. It reflects the knowledge and interests of one man, not its editor but its author. It is nearly 50 years since James D. Hart began on his first edition and this, his fifth, displays his enormous eclecticism. With a confident



Hiawatha mourning Minnehaha

flourish, he will define anything from the ballad to burlesque, from detective fiction to the dime novel. Religions, too, are neatly encapsulated, and he is brisk and clear on those especially esoteric American sects such as the Amish and the Bethels, the Danites and the Perfectionists. Buffalo Bill and Deadeye Dick give a taste of the cowboy life, Charlie Chaplin and Woody Allen represent the cinema and Paul Revere and Phineas Barnum are but two of the many uniquely American heroes Professor Hart cannot resist.

Of course, many writers are here as well, with potted biographies and synopses of their works. The newest generation is now included, with articles on, for example, Ann Beattie and Erica Jong, Alison Lurie and Paul Theroux. On the classics, Professor Hart is consistently impossible to fault. Thorough and impartial, he gives the facts about Poe and

SUMMER BOOKS

Pound, Hawthorne and Hemingway, Lewis and Longfellow and many more. The only distinguished American man of letters he seems unaccountably to have omitted is himself.

Sorry picture

THE WEAKER VESSEL: Woman's Lot in Seventeenth-century England

By Antonia Fraser.

Weidenfeld and Nicolson. 544 pages. £12.95.

After three successful historical biographies, Antonia Fraser now adopts the thematic approach to social and economic history. In this closely-researched and skilfully-organised book, she sets out to explore woman's status—or lack of it—in the seventeenth century and how far it changed in the 101 years between the death of Elizabeth I and the accession of Queen Anne. Were these vessels as weak, she asks, as society supposed?

The book is divided into topics: education, marriage, childbirth, domestic service, widowhood and others, richly illustrated with biographical sketches and anecdotes. From these emerges a sorry picture of seventeenth-century woman, whether heiress or prostitute, mistress or maid. She was disadvantaged from the start by being born a girl in an age when, even after the birth of six boys, the arrival of a girl was considered a calamity. Rarely educated (90% were illiterate), except in housekeeping, women had remained feudal subjects for centuries after the system itself had passed. They were the property first of their fathers to dispose of in marriage, and then of their husbands, from whom divorce was legally impossible. Afflicted, above all, with "the curse of Eve", for contraception was unknown, most women were condemned to years of constant pregnancy and "the pain and terror" of childbirth. If they survived this, and their husbands, they might at last savour the power and privileges of being a "rich and lusty widow". But if they were unmarried, old, ugly, poor and "atrabilious" (indiscreet enough to utter curses), they could find themselves on the ducking-stool or even the scaffold.

Antonia Fraser is more fascinated by those women who, through circumstance and character, stood out from their time; authors, royal mistresses, pioneer educators, and midwives, even "a successful highwayperson". As usual in times of political upheaval, the civil war provided some temporary liberation, and threw up some "great heroicks", unusually courageous women who defended their absent husband's castles, or fought alongside them in distant battles. Some were active in the puritan sects, and others, "the

peace women", besieged parliament to demand an end to the war. Still others presented their "petition of women" to the house of commons, haranguing Cromwell on "those rights and freedoms . . . you promised us". When one member of parliament suggested that "it was not for women to petition, they might stay at home and wash the dishes", he got a tart reply.

This brief taste of freedom came to an end with the restoration. Then, for the most part, they did "stay at home and wash the dishes". Paradoxically, the weakness of Antonia Fraser's elegantly written book lies in her strengths as a biographer. Carried away by the mass of good stories, she is long on anecdote, but short on analysis. In confining her perspective so strictly to the seventeenth century, she spares her readers the painful knowledge that woman's lot was to continue with little improvement for the next 200 years.

Mixed blessing

LADIES-IN-WAITING: From the Tudors to the Present Day

By Anne Somerset.

Weidenfeld and Nicolson. 342 pages. £12.50.

If you think being a sixteenth-century lady-in-waiting was a glamorous and powerful role, spare a thought for the countesses of Oxford and Worcester, who "did hold a fine cloth before the Queen's [Anne Boleyn's] face when she list to spit or do otherwise at her pleasure".

Nor did royal duty always pay well. Many ladies were reduced to penury if the monarch did not pay up. The Countess of Bedford was one of the lucky ones when it was decreed in 1616 that she be permitted to coin farthings in England. Another recipient of royal largesse was accorded the exclusive privilege of searching for treasure among the ruins of Glastonbury Abbey. A lucrative pastime, no doubt, if one had the time.

For the fortune-hunter, Charles II seems to have been the best bet. But he always made his own decisions concerning affairs of state: no petticoat government for him. Nevertheless, if notoriety, titles and fortune were enough, Charles was your man (at least for a while).

It seems that many rulers had drawbacks. With Henry VIII, ladies had to watch their heads, with Elizabeth I, they could be struck—particularly if they married without her consent. Queen Anne was stubborn, though generous, and Queen Victoria could be stuffy.

Life itself was threatened at the court of Edward VII. When visiting Windsor, the then Shah of Iran looked at the

elderly ladies surrounding Queen Alexandra and inquired of the king: "Those are your wives? They are old and ugly. Have them beheaded and take new and pretty ones."

Anne Somerset has written an arresting history of the lady-in-waiting from the Tudors to the present day. Combining anecdote with analysis, she concludes that royal service is a profession with a long and distinguished pedigree, but with few examples of real power. Even so, the majority of royal servants have rendered ungrudging service to the crown.

Odd obsessions

ARISTOTLE TO ZOOS:

A Philosophical Dictionary of Biology

By P. B. and N. S. Medawar.

Weidenfeld and Nicolson. 305 pages. £15.

Philosophers of science sometimes spair at the untidy jungle of ideas that is biology. They are happier in the neat metropolis of physics. Their place has been filled by biologists, who turn to philosophy in a (usually vain) attempt to draw together a grand summary of their life's work. Sir Peter Medawar, the Nobel-prize-winning immunologist, has taken a different attitude. He has steadily, consistently and sometimes aggressively put down his notes on how biology works. And gradually he has emerged as the sage of the subject. This book is a typical offering: not for him the grand Aristotelian synthesis, but a simple dictionary.

It is a clever idea. Sir Peter and Lady Medawar have free rein to give their own interpretations of many different subjects, which they do in short, pithy essays. With some exceptions, the subjects are not those one would think of looking up.

The usual Medawarish obsessions are here. Embryology, genetics and immunology bulk large; psychology and ethology get their condescending asides. The cast includes the usual villains, too. Teilhard de Chardin's "The Phenomenon of Man" is an "incoherent rhapsody"; Arthur Koestler gave "not a very expert or just account" of Darwinism; George Bernard Shaw is "characteristically tiresome". But, deliberately and disappointingly, the Medawars avoid too biographical an approach.

Perhaps the flavour of the book comes out best from the two entries mentioned in the title. Aristotle is castigated for his doctrinal tyranny, zoos for their cruelty. But in each the reprimand is leavened with an aside on sex: Aristotle's views on the potency of semen and a lyrical description of copulating turtles seen in a zoo—"a majestic performance at the unhurried tempo of the Mesozoic".

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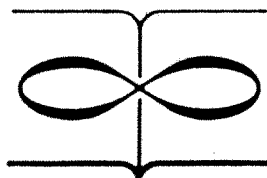
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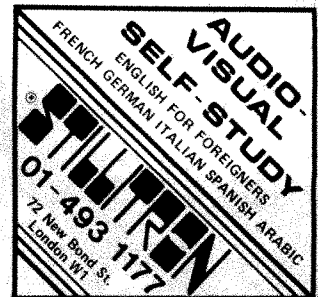


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OUTPUT, DEMAND AND JOBS West Germany's industrial production rose 0.5% in May, but was only 2.2% up on a year earlier. The German jobless rate edged up in June, to its highest level since last September. American retail sales rebounded by 2.3% in April, making a rise of 9.3% since April, 1983. Australia's gnp grew 2.3% in the first quarter, and was pressing the United States for the biggest rise over the previous year. Sweden also managed strong first-quarter growth; its year-on-year increase of 5% was the fastest in western Europe.

% change at annual rate

	Industrial production		gnp		retail sales		unemployment % rate	
	3 mths†	1 year	3 mths†	1 year	3 mths†	1 year	latest	year ago
Australia	+ 3.9	+ 8.2 (4)	+ 9.4	+ 7.9(3)	+ 2.7	- 0.6 (3)	8.9 (5)	10.3
Belgium	+ 4.3	+ 3.3 (2)	na	na	- 0.5	- 2.5 (1)‡	13.5 (5)*	13.3
Canada	+ 3.6	+10.3 (3)	+ 3.3	+5.9 (3)	+ 7.8	+ 6.0 (2)	11.7 (5)	12.3
France	- 2.0	+ 0.8 (4)	+ 1.6	+1.2 (3)	+ 5.6	- 5.8 (3)	9.5 (5)*	8.4
W. Germany	-11.3	+ 2.2 (5)	+ 2.0	+3.6 (3)	+ 2.8	+ 7.7 (4)	9.3 (6)	9.6
Holland	+ 6.9	+ 4.2 (4)	na	na	- 5.9	- 3.8 (2)‡	17.3 (5)*	16.1
Italy	+ 4.1	+ 8.2 (3)*	+ 4.1	+1.2(12)	+ 7.1	+ 7.2 (2)‡	13.0 (5)*	11.8
Japan	+ 8.5	+11.8 (5)	+ 7.4	+5.3 (3)	+13.5	+ 3.0 (3)	2.6 (4)	2.7
Sweden	+ 3.8	+ 5.0 (4)	+ 9.5	+5.0(3)	- 7.5	+ 1.1(12)	2.7 (5)*	3.1
Switzerland	- 4.1	nil (9)	- 5.1	+2.9 (3)	+ 2.8	+ 2.4 (4)‡	1.2 (4)*	0.8
UK	- 5.9	+ 1.9 (4)	+ 3.5	+2.8 (3)	+ 3.7	+ 3.1 (5)	12.7 (5)	12.4
	+10.3	+13.0 (5)	+ 9.7	+8.0 (3)	+ 1.8	+ 9.3 (4)	7.5 (5)	10.1

base index deflated by CPI

PRICES AND WAGES Japan's consumer prices rose by 0.7% in May, and by 2.0% over the previous 12 months. But its wholesale prices, up 0.3% in May, were still showing a 12-monthly fall of 0.4%. West German consumer prices rose 0.4% in June; their 12-monthly increase was unchanged at 2.8%. The Swedish government's pay controls have helped to cut the year-on-year rise in hourly earnings from almost 8% at the end of 1983 to 4.2% in April.

% change at annual rate

	consumer prices*		wholesale prices*		wages/earnings†	
	3 mths†	1 year	3 mths†	1 year	3 mths†	1 year
Australia	- 1.6	+ 5.9 (2)	+ 5.2	+ 6.9 (1)	+14.7	+ 7.2 (3)
Belgium	+ 7.1	+ 7.2 (5)	+ 4.1	+10.9 (4)	- 3.1*	+ 6.1 (3)
Canada	+ 3.9	+ 4.8 (5)	+ 7.0	+ 4.4 (4)	+ 8.8*	+ 6.1 (3)
France	+ 7.9	+ 7.7 (5)	+14.0	+14.5 (3)	+ 7.9*	+ 9.9 (1)
W. Germany	+ 2.0	+ 2.8 (6)	+ 2.2	+ 3.4 (4)	+ 0.6	+ 3.1 (1)
Holland	+ 4.7	+ 3.7 (5)	+ 7.8	+ 5.0 (1)	nil	nil (4)
Italy	+10.1	+11.6 (4)	+12.8	+11.4 (4)	+15.2*	+13.2 (3)
Japan	+ 5.3	+ 2.0 (5)	- 0.9	- 0.4 (5)	+10.4	+ 5.1 (4)
Sweden	+ 8.7	+ 8.9 (5)	+ 9.6	+ 9.1 (4)	+ 5.1*	+ 4.2 (4)
Switzerland	+ 4.7	+ 3.2 (4)	+ 5.4	+ 3.7 (4)	- 1.3*	+ 6.1(12)
UK	+ 6.5	+ 5.1 (5)	+10.8	+ 6.4 (5)	+ 4.7	+ 7.8 (4)
USA	+ 4.8	+ 4.2 (5)	+ 3.9	+ 2.7 (5)	+ 3.5	+ 3.2 (5)

† Hourly wage rates in manufacturing except Australia, weekly earnings; Japan and Switzerland, monthly earnings; Belgium, Canada, Sweden and USA, hourly earnings; UK, monthly earnings for all employees.

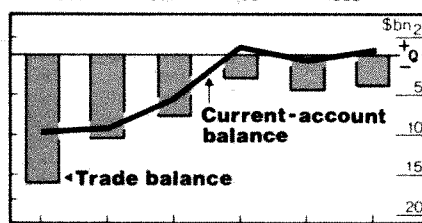
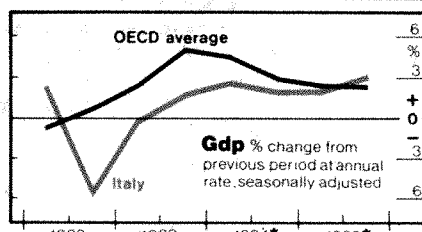
THE ECONOMIST COMMODITY PRICE INDEX Tin prices have reached a record £9,350 a tonne in London, helped by a weak pound and buying for the Tin Council's buffer stock. Export controls and heavy buffer-stock buying kept prices off the Tin Agreement's floor last year, despite a surplus of 90,000 tonnes of tin in the market. Now stocks are falling, so prices could go higher—especially as the Tin Council has tightened export controls this quarter. The Council expects smuggling to fall from an estimated 16,500 tonnes in 1983 to 12,000 tonnes this year.

1980=100

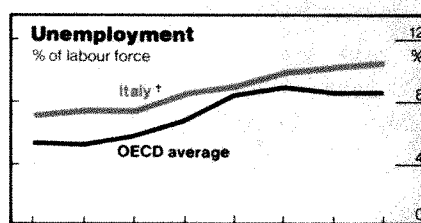
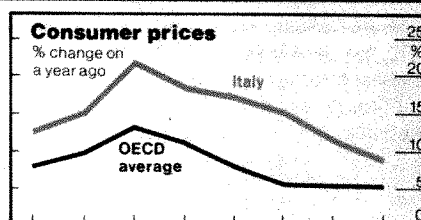
	Jun 26	Jul 3 (provisional)	% change on one month	% change on one year
Dollar index				
All items	83.8	82.2	-6.7	- 3.2
Food	94.4	92.6	-5.7	+10.9
Industrial				
All	74.1	72.7	-7.9	-15.7
Nfa*	79.3	77.3	-8.4	-20.2
Metals	70.2	69.3	-7.2	-11.3
Sterling index				
All items	143.9	142.9	-2.7	+10.7
Food	162.1	160.9	-1.7	+26.7
Industrial				
All	127.3	126.4	-3.9	- 4.6
Nfa*	136.2	134.3	-4.5	- 8.9
Metals	120.6	120.4	-3.3	+ 1.4
SDR index				
All items	105.9	104.2	-4.6	+ 0.5
Food	119.2	117.3	-3.7	+15.0
Industrials				
All	93.7	92.1	-5.8	-12.5
Nfa*	100.2	97.9	-6.4	-17.3
Metals	88.7	87.8	-5.2	- 8.0
Gold				
\$ per oz	370.25	368.25	-6.5	-11.6
Crude oil (spot) Arabian light				
\$ per barrel	27.60	28.00	-1.4	- 2.4

*Non food agriculturals

OCUS: ITALY Ignoring its huge black economy, Italy's official statistics have told a sorry tale of late. Gdp fell last year by 1.4% and industrial production by 4.3%—the only one of the seven biggest OECD economies to shrink, and Italy's deepest recession since 1975. Inflation averaged 14.6% in 1983, compared with an OECD average of 5.3%, and unemployment rose sharply. The one bright spot was the current account, which swung from a \$5.5 billion deficit in 1982 to a surplus of \$510m. The OECD's latest forecasts are more cheerful; they expect gdp growth to resume this year, inflation to fall and the current account to stay close to balance.



Source: OECD

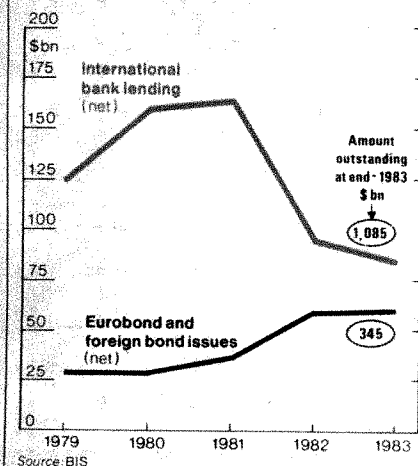


*Forecasts † OECD standardised method, different from national definition

Footnotes applicable to all tables. All figures seasonally adjusted except where otherwise stated. *Not seas. adj. †Average of latest 3 months compared with average of previous 3 months, at annual rate. n.a. Not available. Small figures in brackets denote month of indicator.

ECONOMIC AND FINANCIAL INDICATORS 2

FOCUS: INTERNATIONAL LENDING Banks in the main financial centres lent a net \$165 billion in 1981, the last year of the boom in lending to poor countries. Then came Mexico's near-default, and bankers became more cautious. The Bank for International Settlements (BIS) reckons banks' net lending fell to \$95 billion in 1982 and only \$85 billion last year. Borrowers have been able to make good some of this decline by turning to the international bond market, traditionally willing to lend only to the bluest chips. Last year net international bond issues totalled \$59 billion, more than double their value in 1980. The BIS notes that the borderline between bond and bank lending has become "rather blurred", largely because some borrowers are now issuing floating-rate notes on terms that closely resemble syndicated bank loans. The banks themselves are big subscribers to floating-rate issues.



WORLD BOURSES The three largest markets—New York, Tokyo and London—regained some nerve, though all are still well down on their 1984 highs. Hongkong fell spectacularly to a new low for the year, on fears that a big property deal was going to be called off.

Stock price indices

	July 3	high	low	one week	one year	record high	31/12/83 in local currency	in \$ terms
London	821.3	922.8	770.3	+2.2	+18.7	-11.0	+ 5.9	- 2.4
New York	1134.3	1286.6	1086.9	+1.0	- 6.1	-11.9	- 9.9	- 9.9
Canada	2220.6	2585.7	2187.8	-0.2	- 9.3	-14.5	-12.8	-17.3
Australia	656.2	787.9	646.3	-0.1	+ 8.2	-16.7	-15.4	-19.8
Japan	789.1	876.6	735.5	+0.7	+20.1	-10.0	+ 7.8	+ 4.2
Hongkong	861.8	1170.4	861.8	-7.1	-15.7	-52.4	-1.5	- 2.0
Belgium	141.4	156.3	135.3	-0.9	+10.0	- 9.5	+ 3.8	+ 0.7
France	170.4	181.7	155.6	+0.1	+36.2	- 6.2	+ 8.7	+ 4.5
Germany	987.9	1096.5	979.5	-0.6	+ 1.8	- 9.9	- 4.4	- 7.7
Holland	126.7	147.2	118.7	+3.0	+14.8	-13.9	- 2.0	- 5.8
Italy	207.3	229.6	192.1	-2.4	+ 8.7	-29.0	+ 8.3	+ 3.7
Singapore	895.0	1071.9	879.7	-0.6	- 8.9	-16.5	-10.7	-11.6
South Africa	1023.1	1105.3	962.6	-0.8	+ 8.8	- 7.4	+ 5.9	- 9.0
Sweden	1502.4	1594.5	1388.0	+1.3	+ 9.3	- 5.8	+ 3.9	+
Switzerland	361.1	388.7	355.4	+0.9	+ 7.8	-23.1	- 5.9	-

MONEY AND INTEREST RATES Both measures of Australian monetary growth slowed again in May. Canadian banks raised their prime lending rates by half a percentage point, for the second week in succession. Swiss three-month deposit rates also went up half a point, to 3.75%—their highest for eight months.

	Money supply		Interest rates % p.a. (Tuesday, except bonds which are previous Friday)							
	% rise on year ago		Money market		Commercial banks		Bond yields		Eurocurrency	
	Narrow (M1)	Broad†	Overnight	3 months	Prime lending	Deposits 3 months	Gov't long-term	Corporate	Deposits 3 months	Bonds
Australia	+ 9.7	+11.0 (5)	12.50	12.45	14.75	12.10	14.10	15.10	11.94	13.60
Belgium	+ 9.0	+ 8.7(12)	8.10	11.90	14.75	11.50	12.34	12.56	11.75	na
Canada	+ 6.0	+ 3.1 (5)	12.00	12.50	13.00	12.55	14.11	14.17	12.53	13.44
France	+11.8	+11.6(12)	11.63	12.25	12.25	12.25	12.89	14.11	12.38	13.37
W Germany	+ 4.5	+ 4.0 (4)	5.55	6.15	8.00	6.00	8.15	8.05	5.97	8.05
Holland	+ 1.2	+ 4.7 (3)	5.75	6.25	7.50	6.25	8.72	8.75	6.25	8.61
Italy	+12.9	+13.2(12)	16.63	17.00	17.00	11.50	15.27	14.43	15.50	na
Japan	+ 2.3	+ 7.7 (4)	6.13	6.34	5.50	3.50	7.43	7.66	6.25	7.78
Sweden	na	+ 7.0 (4)	11.50	12.00	11.00	11.65	11.00	12.25	12.25	na
Switzerland	+ 0.7	+ 6.0 (3)	3.75	4.63	7.50	3.75	4.69	5.05	4.56	5.99
UK	+13.4	+ 8.7 (5)	6.25	9.72	10.25	9.56	11.51	12.69	9.69	12.08
USA	+ 6.8	+ 9.5 (5)	11.75	10.75	13.00	11.68	13.77	14.95	12.31	13.86
Other key rates in London 3 mth Treasury Bills 8.9%, 7-day Interbank 9.3%, clearing banks 7-day notice 6.0%.										
Eurodollar rates. (Libor): 3 mths 12.4%, 6 mths 12.9%.										

Other key rates in London 3 mth Treasury Bills 8.9%, 7-day interbank 9.3%, clearing banks 7-day notice 6.0%. Eurodollar rates (Libor): 3 mths 12.4%, 6 mths 12.9%.

† M2 except Australia, Canada, Switzerland, U.S.A., W. Germany, M3, Japan M2 + C.Ds, UK £M3. Definitions of interest rates quoted available on request. Sources: Chase Manhattan, Chase Econometrics, Banque de Commerce (Belgium), Nederlandse Credietbank, Credit Lyonnais, Svenska Handelsbanken, ANZ bank, Credit Suisse First Boston. These rates are indicative and cannot be construed as offers by these banks.

TRADE, EXCHANGE RATES AND RESERVES The American visible trade deficit fell to \$8.8 billion in May, its smallest this year. Japan had another large visible surplus, of ¥821 billion (\$3.6 billion), taking the 12-month total to \$35.9 billion; but its current-account surplus was a relatively modest \$1.9 billion, for a 12-month total of \$25.7 billion. West Germany's current account went back into deficit in April—\$170m, giving it a 12-month surplus of only \$2.5 billion.

	Trade balance** \$bn		current- account balance \$bn	currency units per \$		3mth forward rate		Trade-weighted† exchange rate		currency units		foreign reserves†† \$bn	
	latest month	latest 12 months	latest 12 mths	latest	year ago	per \$	Discount/ premium %pa	latest	year ago	per £	per SDR	April	year ago
Australia	- 0.41 (5)	+ 0.3	- 5.6 (5)	1.17	1.14	1.16	Prem 0.30	81.1	79.2	1.57	1.21	8.2	6.4
Belgium	- 0.05(11)	- 2.3	- 0.5(12)	57.3	51.8	57.2	Prem 0.80	89.7	92.3	76.5	58.7	4.3	5.0
Canada	+ 1.37 (4)	+14.3	+ 0.7 (3)	1.32	1.23	1.32	Disc 0.14	88.1	91.9	1.76	1.35	2.5	3.6
France	+ 0.01 (5)	- 3.1	- 2.0 (3)	8.66	7.71	8.66	Disc 0.09	65.8	69.0	11.6	8.84	19.3*	17.1
W. Germany	+ 1.07 (4)	+15.7	+ 2.5 (4)	2.82	2.56	2.78	Prem 6.39	124.5	127.5	3.77	2.88	46.2	45.5
Holland	+ 0.48 (3)	+ 3.7	+ 3.6(12)	3.18	2.87	3.13	Prem 6.09	114.0	116.9	4.25	3.25	10.2	10.8
Italy	- 0.96 (3)	- 7.2	- 1.1 (9)	1730	1521	1743	Disc 3.12	48.4	51.4	2308	1777	18.9	16.1
Japan	+ 3.56 (5)	+35.9	+25.7 (5)	240	240	236	Prem 6.09	155.0	147.0	320	246	25.4	24.6
Sweden	+ 0.16 (5)	+ 2.1	- 1.1(12)	8.24	7.67	8.25	Dics 0.85	67.3	67.6	11.00	8.45	3.6	3.4
Switzerland	- 0.20 (4)	- 3.6	+ 3.0(12)	2.37	2.12	2.32	Prem 7.71	143.3	150.3	3.16	2.42	13.0	12.3
UK	- 0.44 (5)	- 1.9	+ 2.0 (5)	0.75	0.65	0.75	Prem 2.84	78.6	84.5	—	0.77	10.4	11.7
USA	- 8.84 (5)	-98.0	-58.4 (3)	—	—	—	—	135.0	125.7	1.34	1.03	23.5	23.0

†Bank of England index 1975=100 ††excluding gold. **Canada, Australia, Japan, France and UK imports fob, exports fob. All others cif/fob. *February.



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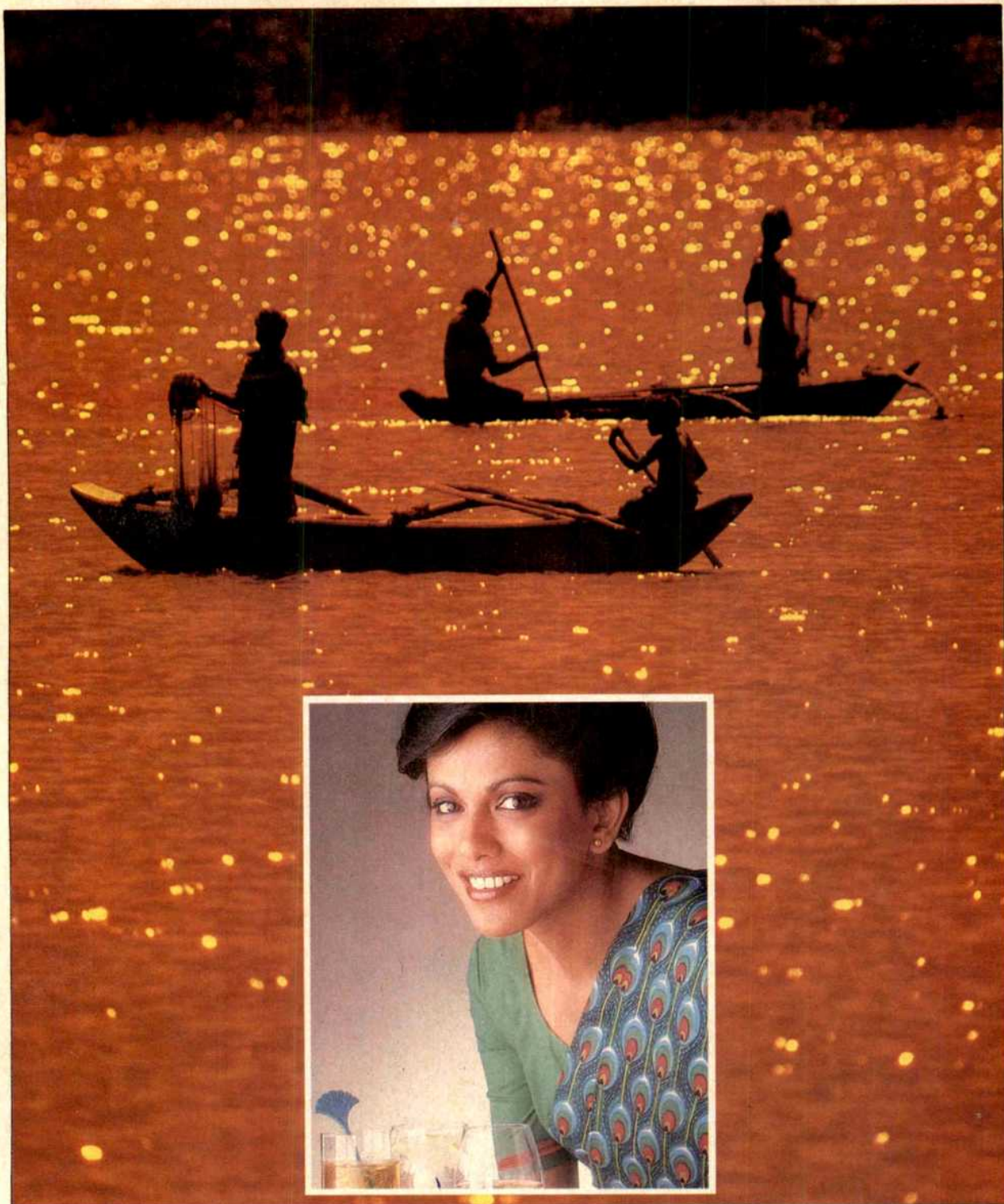
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